



**XLMedia PLC**  
Annual Report and Accounts 2013

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## Highlights

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### About XLMedia PLC

XLMedia is a global digital publishing and marketing company which attracts paying users from different online channels and directs them to online gambling operators.

XLMedia and its subsidiaries (the “Group”) provide marketing services to online gambling operators. The Group attracts players through online marketing techniques and subsequently seeks to channel high value “traffic” (i.e. players) to gambling operators who, in turn, convert such traffic into paying customers. Online gamblers are attracted by the Group’s publications and advertisements and are then directed, by the Group, to online gambling operators in return for a share of the revenue generated by such players, a fee generated per player acquired, fixed fees or a hybrid of any of these three models.

### HIGHLIGHTS

#### Financial Highlights<sup>1</sup>

- Revenues increased 32% to \$34.5 million (FY 2012: \$26.1 million).
- Gross profit increased 26% to \$20.5 million (FY 2012: \$16.3 million).
- Gross margin decreased 3% to 59% (FY 2012: 62%), reflecting the launch of new marketing channels in H2 2013 such as display media buying and social media channels.
- Operating expenses increased 101% to \$8.5 million (FY 2012: \$4.2 million) reflecting all infrastructure put in place during 2013 to prepare the Company for listing and future growth.
- Adjusted EBITDA<sup>2</sup> increased 6% to \$13.3 million (FY 2012: \$12.5 million).
- Total Equity to total balance sheet ratio 79% (2012: 47%).
- Dividend declared to Equity holders \$5.25 million.
- Maiden dividend of \$0.02768 per share paid on 12 June 2014 to shareholders on the register at 23 May 2014.

#### Operational Highlights

- Successful admission to trading on AIM in March 2014
  - Raised approximately \$69.5 million (£41.8 million gross<sup>3</sup>) via a significantly oversubscribed placing with institutional investors.
  - Proceeds of the placing to fund acquisitions and country specific joint ventures to accelerate organic growth and expansion into new territories as well as continued investment in R&D.
- Continued strengthening of XLMedia’s market position and geographic reach, with expansion into German and English speaking markets.
- Recent entry into the newly opened U.S. market with agreements in place and dedicated staff to provide traffic to leading gambling brands.
- Successful growth of the media channel, expanding into display and social media advertising.
- Board remains confident of continued growth in 2014 and beyond.

<sup>1</sup> The Company was incorporated on 22 April 2012, and purchased the current business which was originally established in 2008, therefore the financial statements include 2012 for nine months only. However, in its admission document to AIM published in March 2014 XLMedia included combined financial information of the Group for the full year ended 31 December 2012. Therefore, all references in the financial highlights refer to comparing full year 2013 to full year 2012. For further details on the combined financial information please refer to the Group’s admission document, part 4 – Financial information, Note 2.

<sup>2</sup> Earnings before interest, taxes, depreciation and amortisation and adjusted to exclude share based payments.

<sup>3</sup> Gross before expenses, which included £32.6 million raised for new shares.

## Chief Executive Officer's Review

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Following its admission to trading on AIM in March 2014, XLMedia delivered a record performance for FY 2013, with Revenue up 32% and Gross Profit up 26% compared with FY 2012, underpinned by high levels of organic growth in all segments. Over the course of the year, the Group has seen momentum build with Q4 representing the Group's best ever quarter in terms of Revenue and Gross Profit. This strong trend has continued into the new financial year with 2014 starting positively.

Group adjusted EBITDA grew 6% in 2013, to \$13.3 million. The lesser growth in EBITDA reflects an increase in Operating expenses, particularly General and administrative expenses, as the Group prepared for future growth and executing its acquisition strategy.

The Group's recent admission to trading on AIM not only provided a strong endorsement for the business from institutional investors but has also helped to broaden the Group's profile internationally, will aid in accelerating a number of growth opportunities and will provide further financial support as management evaluates potential acquisitions.

In November 2013, the Group commenced North American activities. Driving traffic to operators in New Jersey and Nevada was initiated in January 2014. Whilst our U.S. activities remain at an early stage of development, management remains confident that over the next three to five years significant opportunities exist to expand the Group's market presence in the region.

As articulated in our AIM admission document, which may be found at [www.xlmedia.com](http://www.xlmedia.com), acquisitions will form an important component of the Company's ongoing growth strategy and the Board continues to evaluate a number of potential acquisition opportunities ranging in size and complexity. Since admission, the Company has completed a small bolt-on acquisition of a high potential domain operating in North America for \$300,000 and purchased a high potential poker website in the US for \$130,000. We remain confident that XLMedia continues to be well placed to benefit from the consolidation opportunities within the online gaming market.

In view of the good start to 2014, we remain confident of further improvements in performance in the current financial year and beyond. XLMedia has a consistent track record of profitable growth and cash generation since its establishment in 2008 with approximately 70% of its revenues coming from lifetime revenue share agreements, providing high quality recurring revenue streams.

On a personal note, I would like to thank our employees and Directors, for their commitment and invaluable contribution to the continuing success of the Group.



**Ory Weihs,**

*Chief Executive Officer*

## Financial Review

	FY 2013	FY 2012 <sup>1</sup>	Change %
Revenues	<b>34,503</b>	26,135	32%
Gross Profit	<b>20,449</b>	16,272	26%
Gross Margin	<b>59%</b>	62%	3%
Operating expenses	<b>8,447</b>	4,203	101%
Operating Income	<b>12,002</b>	12,069	-1%
Adjusted EBITDA	<b>13,275</b>	12,484	6%

2013 saw a record financial performance for the Group. Content and Search accounted for 55% of revenues or \$18.8 million (2012: 57%), Media Buying for 29% or \$10.1 million (2012: 31%) and the affiliate network for 16% or \$5.6 million (2012: 12%). Growth in the Content and Search segment came from an increase of traffic to the Group's websites, as well as new websites launched or acquired. Growth in the Media Buying segment came from new media channels such as display and social media, which were developed during 2013.

Results per business segment include the following:

	Content & Search	Media Buying	Affiliate Network	Total
<b>2013</b>				
<b>Revenues</b>	<b>18,840</b>	<b>10,071</b>	<b>5,592</b>	<b>34,503</b>
<b>Segment Profit</b>	<b>14,234</b>	<b>5,583</b>	<b>632</b>	<b>20,449</b>
<b>2012<sup>4</sup></b>				
Revenues	14,922	8,183	3,030	26,135
Segment Profit	10,188	5,607	477	16,272
<b>Revenue growth</b>	<b>26%</b>	<b>23%</b>	<b>85%</b>	<b>32%</b>

Gross profit rose 26% in 2013 to \$20.5 million with the strongest growth coming from the Content and Search segment. Whilst revenues in the Media Buying segment grew, as expected, Gross profit remained stable due to lower margins resulting from the entry into new media channels, such as display media buying and social media, which are characterized by lower margins compared to the Pay Per Click search campaigns in previous years.

During 2013 operating expenses increased significantly, relating to the recruitment of finance and marketing teams, research and development, IT systems and to prepare for the Initial Public Offering ("IPO") on the London Stock Exchange's Alternative Investment Market (AIM) and future growth. Going forward as a public company, whilst we will maintain tight control of expenses, we expect these to grow further as we expand and execute our acquisition strategy, but revenues and Gross profit will rise accordingly.

Cash flow from operating activities remained strong at \$11.9 million (2012: \$12.9 million). As revenues grew trade receivables grew as well, which brought the operating cash flow slightly down. The Company usually collects revenues within 30 to 60 days.

Cash flow used for investing activities amounted to \$1.5 million, which was used mainly for investing in business information systems and software, as well as additional websites mainly for the Scandinavian markets.

Cash flow from financing activities was \$2.5 million, which included a net \$14.3 million investment in the Company by a U.S. fund offset by dividends and other payments to shareholders in the amount of \$9.1 million, payments to minority holders of \$2.1 million and pre-paid expenses in connection with the Company's IPO in the amount of \$0.7 million.

4 The Company was incorporated on 22 April 2012, and purchased the current business which was originally established in 2008, therefore the financial statements include 2012 for nine months only. However, in its admission document to AIM published in March 2014 XLMedia included combined financial information of the Group for the full year ended 31 December 2012. Therefore, all references in the Financial Review refer to comparing full year 2013 to full year 2012. For further details on the combined financial information please refer to the Group's admission document, part 4 – Financial information, Note 2.

## Financial Review

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XLMedia's balance sheet remained strong in 2013. As at 31 December 2013, the Company had cash and cash equivalents of \$15.5 million (2012: \$2.6 million). Total working capital<sup>5</sup> was \$15.8 million (2012: \$3.5 million) and total assets were \$33.4 million (2012: \$17.3 million), with shareholders' equity of \$26.5 million (2012: \$8.1 million). The material increase in equity was from net income of \$11.1 million and the issuance of shares to the U.S. investor totalling \$14.3 million offset by dividends to shareholders of \$5.2 million and dividend payments to minority holders in the Group of \$2.3 million.

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5. Current assets less current liabilities.

## Board of Directors

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From April 2012 to March 2014 the Board of XLMedia (prior to November 2013, known as Webpals Marketing Systems Ltd.) consisted of:

Ory Weihs	Executive Director
Alan Joseph	Non-Executive Director
Dejan Nikolic	Non-Executive Director

In March 2014 in preparation for the IPO and the change to a Public Limited Company Alan Joseph and Dejan Nikolic resigned from their positions as non-Executive Directors and the current Directors were appointed.

Since March 2014, the Board of the Company comprises of one executive Director and four non-executive Directors.

### **Ory Weihs – Chief Executive Officer**

Mr. Weihs is one of the Founders and leads the Group's business development and key strategy. Mr. Weihs is an entrepreneur who has been deeply involved in the online gambling industry for over ten years. He is a frequent speaker at industry events and is known as an expert in online marketing. He has a B.Sc. in Industrial Engineering from the Technion – Israeli Institute of Technology from 2007.

### **Chris Bell – Independent Non-Executive Chairman**

Mr. Bell joined Ladbrokes Group in 1991, becoming CEO of Ladbrokes in 1994, in 2000 he joined the Board of Hilton Hotels PLC. Following the sale of Hilton hotels' division, in 2006, he became CEO of Ladbrokes PLC, leaving in 2010. Mr. Bell is senior independent Director and Chairman of the Remuneration Committee at Quintain Estates & Development PLC, Non-executive Director at Spirit PLC and a member of The Responsible Gambling Strategy Board, which advises the Government and The Gambling Commission in the UK. Prior to 1991 Mr. Bell held various senior positions at Allied Lyons PLC, most latterly as a Director of Victoria Wine.

### **Richard Rosenberg – Independent Non-Executive Director**

Mr. Rosenberg is a qualified chartered accountant and a partner in SRLV, a London-based multi-disciplinary accountancy and consultancy firm which he co-founded in 1988. Mr. Rosenberg is the Non-Executive Chairman of Livermore Investments Group Limited, an AIM quoted investment company.

### **Alicia Rotbard – Independent Non-Executive Director**

Ms. Rotbard is an experienced entrepreneur, founding and managing technology companies. Ms. Rotbard serves on a number of boards including; Israel Discount Bank, the third largest bank in Israel; Pointer, a fleet management company traded on NASDAQ; AIG-Israel, an insurance company fully owned by AIG USA; KAMADA and RedHill-Bio, two pharmaceutical companies traded on NASDAQ; Queenco Leisure International Ltd, a public hotels and leisure company traded on the London Stock Exchange. Ms. Rotbard served as the deputy General Manager of the Tel Aviv Stock Exchange from 1980 – 1985 and founded and managed DOORS Information Systems, a communications company offering data services to international banks between 1990 and 2002.

### **Yaron Eitan – Non-Executive Director**

Mr. Eitan is a partner of Columbus Nova Technology Partners, a technology-focused venture capital fund and joined the Board in conjunction with an investment by IVPL (a shareholder of the Company which owns approximately 10.11 per cent. of the Enlarged Share Capital) and is also the founder and managing partner of Selway Capital, an investment management firm whose portfolio includes equity holdings in private and public companies in the technology and healthcare industries. Prior to launching Selway, Mr. Eitan ran several companies including Reshef Technologies, Patlex, and Geotek Communications. He currently serves as Chairman of a number of companies including Healthcare Corporation of America, DVTel Inc, Magnolia Broadband, and Software Technology, Inc. He is also a director of LifePrint Group and Cyalume Technologies Holdings, Inc. Mr. Eitan served in the Israeli Defense Forces for six years, where he reached the rank of Major. He received his bachelor's degree in economics from Haifa University and an M.B.A. from the Wharton School of Business at the University of Pennsylvania.

## Directors' Report

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### Overview

XLMedia provides marketing services to online gambling operators. The Group attracts players through online marketing techniques and subsequently seeks to channel high value "traffic" (i.e. players) to gambling operators who, in turn, convert such traffic into paying customers. Online gamblers are attracted by the Group's publications and advertisements and are then directed, by the Group, to online gambling operators in return for a share of the revenue generated by such players, a fee generated per player acquired, fixed fees or a hybrid of any of these three models.

The three principal revenue generating activities of the Group are: Content and search, digital media buying and through its own affiliate network.

**Content and search;** XLMedia earns the majority of its revenue from the monetisation of traffic generated by its own portfolio of websites. The Group owns more than 2,000 websites which provide gambling related content, to potential players, in 17 languages. These sites' content, written by professional writers, is designed to attract online gamblers which the Group then directs to gambling operators. The sites either direct players to a certain operator or will allow the players to select the operator most relevant to their requirements.

The Group's strategy is to maintain a high ranking of its sites on leading search engines by continuously adding content and features. The Group seeks to optimise the user interface and experience by utilising sophisticated key word research, on page, off page and content optimisation techniques. The Group tracks the flow and quality of traffic to its customers using a number of in-house platforms to analyse the quality and conversion of traffic generated by its websites into revenue to achieve an improved return on investment.

Once a player is directed through a Group website to the site of an operator, that player is "tagged" in the operator's system as a player that was generated by the Group. In this division, the Group's revenues are usually earned once a player generates a win for a gambling operator. The Group's typical remuneration is based on a lifetime revenue share model which can see the Group earn between 30% and 55% of the operator's net winnings related to the relevant player. In certain circumstances, the Group receives either a one-off cost per acquisition ("CPA") fee in lieu of a lifetime revenue share or a fixed periodic fee.

**Media Buying;** The Group's Media Buying division acquires online advertising media targeted at potential players with the objective of directing them to the Group's customers. The Group buys advertising space on search engines, websites, mobile websites & applications and social networks and places adverts referring potential players to the Group's customers' websites or to its own websites.

The Group has the ability to run a large number of simultaneous marketing campaigns across different platforms and in different languages focusing on key word searches and display adverts on popular websites. The Directors believe that the Group's established industry relationships, scale and track record help it to achieve favourable media buying terms when compared to new entrants in the market.

The Group uses in-house developed platforms and iterative testing of adverts and placements as well as frequent analysis of traffic generation to ensure that returns from this division are maximised. The Group has recently hired a team of experienced individuals to focus on media buying for display, mobile, in app advertising and social networks to address the growing opportunity that the Directors believe exists on these platforms.

**Affiliate network;** The Group currently manages approximately 300 active affiliates, whose role is to direct potential players to the Group's customers for which the Group receives revenues. The Group is then responsible for paying its affiliate partners. The Directors believe that the Group's affiliate programme is attractive to existing and potential affiliates as it enables them to have a single point of contact to direct traffic to, and receive monies from, rather than engaging in multilateral negotiation, administration and collection of revenues from the operators.

Having a large affiliate network provides the Group with additional scale to negotiate with the gambling operators. The Directors believe that the Group is adept at driving volumes in this segment and it provides the Group with valuable business flow and it will help identify potential acquisition targets for the Group. As the network offers marketing affiliates the ability to promote many brands, the Group often obtains a large share of traffic from the total traffic that that individual affiliate generates.

### Growth Strategy

Demand for digital marketing within the gambling sector is accelerating and the online gambling market is estimated to grow at an average annual growth rate of 9% per annum to 2018. As regulation of the online gambling market continues to develop, XLMedia expects this market to continue to grow and sees significant opportunities to expand its reach into new and existing territories.

As the EU is currently the largest and most sophisticated area in the gambling market, and one in which XLMedia already has a strong market presence, the Group will continue to concentrate on expanding its existing European footprint,



## Directors' Report

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increasing market share in key territories and increasing content and search activities to drive customer attraction. The Company's current business model allows for expansion across Europe without significant capital expenditure in the near term.

Turning to the U.S. market, though currently in its initial stage, it is expected to generate rapid growth as regulation returns to a number of key states, which now include Delaware, Nevada and New Jersey and ongoing discussions pro regulation are being held in other states. Management has established a strategic partnership which has already started generating online traffic. Whilst management believes organic growth will increase, a number of potential domain acquisition opportunities that will accelerate both revenue growth as well as the Group's market position in the U.S. have already been identified with two websites already acquired.

The Group's Content and Search skills set continues to evolve driven by ongoing investment, mobile marketing, optimisation and social media activities. This technology allows the Group to broaden the offering to target other end markets (e.g. Financial Services, Dating, e-Commerce etc.). Further investment in this area will enable the Group to maintain its market position.

### Update on the USA

The U.S. online gambling market, which was previously the largest in the world, effectively closed following the enactment of the Unlawful Internet Gambling Enforcement Act ("UIGEA") in 2006. It has only recently started to re-open with the U.S. States of Delaware, Nevada and New Jersey operating a licensing regime with further U.S. States expected to follow suit. The total US online gambling market was estimated at \$502 million in 2013 and is expected to reach a total market of \$5.3 billion in 2018, representing average expected growth of 67%<sup>6</sup>.

The following operational and strategic initiatives continue to underpin the Group's U.S. growth prospects:

- **Licensing:** The Group has already registered with the state regulator in New Jersey enabling it to contract with operators targeting players in that U.S. state on a fixed fee basis and is in the process of applying for a licence which will enable the Group to operate on a more flexible revenue model based on receiving fees per player referred and allow for a closer partnership with local operators.
- **Customers:** The Group has signed agreements with leading online gambling operators to serve as an online marketing partner for certain of each entity's respective brands, and is in ongoing discussions with other licensed gambling operators.
- **Operations:** The Group is already in the process of recruiting staff, and so far has recruited a dedicated US business manager from one of the leading gambling operators as well as 4 additional dedicated employees. In addition, the Group is developing traffic channels and expanding its U.S. client base and so far has bought media campaigns in an amount of approximately \$400K targeted at the U.S. market. Since the customers reimburse the Group for most of the media expenses, these will be recorded net in the financial statements of the company and will not be reflected in the revenues or expenses data.
- **Affiliate Network:** The Group intends to expand its affiliate network in the U.S. to capitalise on the early mover advantage that management believes that the Group has from being one of the first affiliate marketing companies to commence operations in the U.S. online gambling sector.
- **Acquisitions:** Management continues to identify a number of potential acquisition opportunities that could accelerate both revenue growth and the Group's market position in the U.S. and is working on progressing these.

### Acquisition Strategy

As part of the Group's growth aspirations, an active pipeline of potential acquisition prospects has been developed. This targeted list aims to complement the Group existing European operations in addition to helping to accelerate the significant opportunity that exists in North America.

Since admission, the Company has completed a small bolt-on acquisition of a high potential domain operating in the North American market for \$300,000 and has purchased a US poker website for an amount of \$130,000. A significant number of other acquisitions opportunities remain under active review

Management believes that consolidation in what is a highly fragmented market within the gaming arena will help accelerate innovation, geographic reach and the Group's market position. The Group's strengthened balance sheet following the successful Placing and Admission to AIM will allow the Group to accelerate the conversion of this pipeline. Whilst the Company expects to complete a number of small acquisitions, management is determined to complete at least one major acquisition during the second half of this calendar year.

6. Source: H2GC United States data, May 2014.

## Directors' Report

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### Summary & Outlook

XLMedia experienced a strong period of growth in 2013. This excellent performance in profit and cash generation further reinforces the Group business model, and underpins the Board's dividend policy of a targeted 50% pay-out rate.

The current financial year has started well with strong sales growth in our core European markets, particularly in our strategic targets, English and German speaking countries. The Group continues to be encouraged by the development of the U.S. market and believes the Company is well placed to capitalise on this significant growth opportunity.

With the performance made in 2013, and in view of the strong start to 2014, the Board remains confident of delivering continued growth in 2014.

### Dividend Policy

The Company has historically paid dividends and intends to continue doing so. The Board's proposed policy is to pay out at least 50 per cent. of retained earnings in any financial year by way of dividend. The Directors will continue to monitor the level of cash retained within the business as well as investment opportunities available to the Group and, from time to time, review the continued appropriateness of such policy.

In May 2014 the Group announced its first dividend payment, since listing on AIM. The Board approved a special dividend payment for 2014 of \$5.25M USD, being 50% of the retained earnings from 2013, to be paid to all shareholders on the Company's register as at 23 May 2014. For further information on the dividend please see NOTE 22c Subsequent events.

### Employees

We believe our people are a key asset.

We value our employees and help and support them to stay healthy and safe. Our employee initiatives include a confidential employee helpline, private medical insurance, lunch vouchers and a shuttle service around Tel-Aviv.

### Principal Risks and Uncertainties

In the Company's Admission Document, significant risks and mitigating actions were identified. A Risk Committee was formed pre-IPO from the members of the new Board with Chris Bell as Chairman. Since the IPO mitigating actions have been implemented with the support of the Board to address the risks identified at Admission.

### Annual General Meeting

The Group will be holding its first AGM in early 2015, when the Annual Report and Accounts for 2014 will be put before the Shareholders.

### Events after the Reporting Period

For significant events after the reporting period please refer to NOTE 23: Subsequent events.

### Directors' Statement as to Disclosure of Information to Auditors

Having made enquiries of fellow Directors and of the Company's auditors, each Director confirms that to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware. The Directors of the Company have taken all the steps that they might reasonably be expected to have taken as directors in order to make themselves aware of any information needed by the Company's auditor in connection with preparing their report and to establish that the auditors are aware of that information.



Approved by the Board and signed on its behalf by

Yehuda Dahan, Group Chief Financial Officer

June, 20 2014

## Corporate Governance

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There are no specific corporate governance guidelines which apply generally to companies incorporated in Jersey. However, the Directors are subject to various general fiduciary duties and duties of skill and diligence under Jersey company laws and statute. In addition, the Directors recognise the value and importance of high standards of corporate governance. Accordingly, whilst the UK Corporate Governance Code does not apply to AIM companies, the Directors intend to observe the requirements of the UK Corporate Governance Code to the extent they consider appropriate in light of the Group's size, stage of development and resources. The Board also proposes, so far as practicable, to follow the recommendations set out in the Corporate Governance Code for Small and Mid-Size Quoted Companies, published in May 2013 by the Quoted Companies Alliance.

### **The Board**

The Board is responsible for the overall management of the Group including the formulation and approval of the Group's long term objectives and strategy, the approval of budgets, the oversight of the Group's operations, the maintenance of sound internal control and risk management systems and the implementation of Group strategy, policies and plans. Whilst the Board may delegate specific responsibilities, there is a formal schedule of matters specifically reserved for decision by the Board; such reserved matters include, amongst other things, approval of significant capital expenditure, material business contracts and major corporate transactions. The Board formally meet on a regular basis to review performance.

The Board has established an audit committee, a remuneration committee and a risk committee with formally delegated duties and responsibilities as described below.

Since listing on AIM, on 21st March 2014 the Board has met 3 times. All Directors were in attendance.

### **Audit committee**

The audit committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, monitoring the effectiveness of the internal audit function and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings).

The audit committee comprises Chris Bell, Richard Rosenberg and Alicia Rotbard and is chaired by Mr. Rosenberg. The audit committee will meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required. The audit committee also meet regularly with the Company's external auditors.

### **Remuneration committee**

The remuneration committee is responsible for determining and agreeing with the Board the framework for the remuneration of the chairman, the executive directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of non-executive directors will be a matter for the Chairman to determine. No Director will be involved in any decision as to his or her own remuneration.

The remuneration committee comprises Chris Bell, Richard Rosenberg and Alicia Rotbard who chairs the committee. The remuneration committee will meet at least twice a year and otherwise as required. For further information on Employees and Incentive Arrangements, please see our AIM admission document (the Group Share Incentive Plan and the Options granted pursuant to such plan are set out in paragraph 4 of Part 5), which may be found at [www.xlmedia.com](http://www.xlmedia.com).

### **Risk committee**

The Company has established a risk committee chaired by Chris Bell. The other members consist of Richard Rosenberg and Ory Weihs. The risk committee receives presentations from management on risk, compliance and regulatory issues and reviews the related internal control systems. From time to time, representatives of the Company's lawyers will be invited to attend committee meetings and/or present at them.

### **Share dealing code**

The Company has adopted a share dealing code for Directors and applicable employees of the Group for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules). The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

The Company will take proper steps to ensure compliance by the Directors and applicable employees with the terms of the share dealing code and the relevant provisions of the AIM Rules (including Rule 21).

## Remuneration Report

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The Directors in place in 2013 were remunerated as follows through service agreements:

Ory Weihs            USD 122,000<sup>7</sup>

Alan Joseph        USD 10,000

Dejan Nikolic      nil

Since March 2014 a Remuneration Committee has been appointed, with Alicia Rotbard as Chair.

Through 2014 the Remuneration Committee will be reviewing two main areas, Directors remuneration policy and Senior Management remuneration policy, including the long term incentive measures for Board members, Senior Management and other key employees. The Remuneration Committee will make recommendations to the Board, for 2014 onwards to ensure that the Groups strategic aims and interests of members are aligned.

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<sup>7</sup> For more information on management fees please refer to Note 5 in Notes to the Consolidated Financial Statements.

## Independent Auditors Report

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### To the Shareholders of

#### **XLMedia PLC.**

We have audited the accompanying consolidated financial statements of XLMedia PLC. and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of 31 December 2013 and 2012, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year ended 31 December 2013 and for the period commencing from 22 April 2012 (date of inception) to 31 December 2012 and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013 and 2012, and its financial performance and cash flows for the year ended 31 December 2013 and for the period commencing from 22 April 2012 (date of inception) to 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the European Union and have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

20 June 2014  
Tel-Aviv, Israel

**A. PEREZ**

ALBERT PEREZ  
For and on behalf of  
KOST FORER GABBAY & KASIERER  
A Member of Ernst & Young Global

## Consolidated Statements of Financial Position

		As of 31 December	
		2013	2012
	Note	USD in thousands	
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents		15,455	2,562
Short-term investments	6	428	130
Trade receivables	7	4,498	2,952
Related parties	19	147	692
Other receivables	7	1,974	856
		22,502	7,192
<b>Non-current assets:</b>			
Long-term investments	6	340	–
Property, plant and equipment	8	738	454
Intangible assets	9	6,853	7,285
Goodwill	9	2,416	2,416
Other receivables	22(a)	552	–
		10,899	10,155
		33,401	17,347

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

## Consolidated Statements of Financial Position

		As of 31 December	
		2013	2012
	Note	USD in thousands	
<b>Liabilities and equity</b>			
<b>Current liabilities:</b>			
Trade payables	10	1,536	854
Related parties	19	605	–
Contingent consideration payable	5(a)(i)	2,867	2,000
Other liabilities and accounts payable	11	1,646	891
		6,654	3,745
<b>Non-current liabilities:</b>			
Liabilities to Related Parties	12	–	2,499
Contingent consideration payable	5(a)(i)	–	2,690
Other payables		227	341
		227	5,530
<b>Equity attributable to equity holders of the Company:</b>			
Share capital	14	*	*
Share premium		14,311	*
Capital reserve from transaction with non-controlling interests		106	106
Capital reserve from share-based transactions	15	479	–
Retained earnings		10,494	6,856
		25,390	6,962
Non-controlling interests		1,130	1,110
Total equity		26,520	8,072
		33,401	17,347

\* Lower than USD 1 thousand

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

20 June 2014

Date of approval of the  
financial statements



Chris Bell  
Chairman of the Board of  
Directors



Ory Weihs  
Chief Executive Officer



Yehuda Dahan  
Chief Financial Officer

## Consolidated Statements of Comprehensive Income

		Year ended 31 December 2013	Period from 22 April (inception) to 31 December 2012
	Note	USD in thousands (except per share data)	
Revenues	17	<b>34,503</b>	17,732
Cost of revenues	21	<b>14,054</b>	6,471
Gross profit		<b>20,449</b>	11,261
Research and development expenses		<b>907</b>	428
Selling and marketing expenses		<b>1,785</b>	656
General and administrative expenses		<b>5,755</b>	2,031
		<b>8,447</b>	3,115
Operating income		<b>12,002</b>	8,146
Finance expenses		<b>(496)</b>	(161)
Finance income		<b>123</b>	143
Income before other income (expenses)		<b>11,629</b>	8,128
Other income (expenses), net	22(a)	<b>32</b>	(190)
Profit before taxes on income		<b>11,661</b>	7,938
Taxes on income	16	<b>552</b>	82
Net income and other comprehensive income		<b>11,109</b>	7,856
Attributable to:			
Equity holders of the Company		<b>8,838</b>	6,856
Non-controlling interests		<b>2,271</b>	1,000
		<b>11,109</b>	7,856
Net earnings per share attributable to equity holders of the Company:	14(d)		
Basic and diluted net earnings per share (in USD)		<b>0.09</b>	0.07
Weighted average number of shares used in computing basic earnings per share (in thousands) *		<b>101,436</b>	100,000
Weighted average number of shares used in computing diluted earnings per share (in thousands) *		<b>101,820</b>	100,000

\* Taking account of the share splits during 2013 – see Note 14(b)1

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



## Consolidated Statements of Changes in Equity

Attributable to equity holders of the Company								
	Share capital	Share premium	Retained earnings	Capital reserve from transactions with non-controlling interests	Capital reserve from share-based transactions	Total	Non-controlling interests	Total Equity
Balance as of 22 April 2012 (inception)	–	–	–	–	–	–	–	–
Share capital issuance	*	–	–	–	–	–	–	–
Non-controlling interests arising from business acquisition	–	–	–	–	–	–	759	759
Net income and comprehensive income for the period	–	–	6,856	–	–	6,856	1,000	7,856
Increase of non-controlling interests – Note 5(b)	–	–	–	–	–	–	75	75
Sale to non-controlling interests – Note 5(b)	–	–	–	106	–	106	287	393
Dividend to non-controlling interests	–	–	–	–	–	–	(1,011)	(1,011)
Balance as of 31 December 2012	–	–	6,856	106	–	6,962	1,110	8,072
Net income and comprehensive income	–	–	8,838	–	–	8,838	2,271	11,109
Issue of share capital (net of issue costs of USD 689 thousand)	*	14,311	–	–	–	14,311	–	14,311
Cost of share-based payment	–	–	–	–	479	479	–	479
Increase of non-controlling interests – Note 5(b)	–	–	–	–	–	–	10	10
Sale to non-controlling interests – Note 5(b)	–	–	–	–	–	–	31	31
Dividend to equity holders of the Company	–	–	(1,800)	–	–	(1,800)	–	(1,800)
Dividend to equity holders of the Company as result of the acquisition of Subsidiary – Note 5(c)	–	–	(3,400)	–	–	(3,400)	–	(3,400)
Dividend to non-controlling interests	–	–	–	–	–	–	(2,292)	(2,292)
<b>Balance as of 31 December 2013</b>	<b>*</b>	<b>14,311</b>	<b>10,494</b>	<b>106</b>	<b>479</b>	<b>25,390</b>	<b>1,130</b>	<b>26,520</b>

\* Lower than USD 1 thousand

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

## Consolidated Statements of Cash Flows

	Year ended 31 December 2013	Period from 22 April (inception) to 31 December 2012
USD in thousands		
<b>Cash flows from operating activities:</b>		
Net income	11,109	7,856
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Adjustments to the profit or loss items:		
Depreciation and amortisation	794	386
Finance expense (income), net	255	(152)
Gain from sale of assets	(32)	–
Cost of share-based payment	479	–
Taxes on income	552	82
	<b>2,048</b>	316
<b>Changes in asset and liability items:</b>		
Increase in trade receivables	(1,546)	(875)
Increase in other receivables	(183)	(129)
Decrease in related parties	93	(577)
Increase in trade payables	682	854
Increase in other accounts payable	357	623
	<b>(597)</b>	(104)
<b>Cash paid and received during the period for:</b>		
Interest paid	(136)	–
Interest received	13	15
Taxes paid	(547)	(155)
	<b>(670)</b>	(140)
<b>Net cash from operating activities</b>	<b>11,890</b>	7,928

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

## Consolidated Statements of Cash Flows

	Year ended 31 December 2013	Period from 22 April (inception) to 31 December 2012
	USD in thousands	
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(482)	(180)
Decrease in other financial assets, net, acquired in business combination – Note 5(a)	457	3,383
Purchase of intangible assets	(936)	(702)
Proceeds from sale of assets	50	–
Short- term and long-term investments	(607)	(124)
Net cash from investing activities	(1,518)	2,377
<b>Cash flows from financing activities:</b>		
Prepaid expenses for share capital issuance	(707)	–
Sale of shares to non-controlling interests	31	393
Financing by non-controlling interests	10	75
Dividend paid to equity holders	(1,800)	–
Dividend to equity holders as result of the acquisition of Subsidiary	(2,888)	–
Dividend paid to non-controlling interests	(2,055)	(1,011)
Issue of share capital (net of issue costs)	14,311	–
Repayment of liabilities to Related Parties	(4,381)	(7,200)
Net cash from financing activities	2,521	(7,743)
Increase in cash and cash equivalents	12,893	2,562
Cash and cash equivalents at the beginning of the period	2,562	–
Cash and cash equivalents at the end of the period	15,455	2,562
<b>Significant non-cash transactions:</b>		
Loans from related party	–	5,388
Liabilities to Related Parties incurred in business combination	–	9,125
Purchase of intangible assets	–	341
Dividend payable to equity holders as result of the acquisition of Subsidiary	512	–
Dividend payable to non-controlling interests	237	–
Receivable from sale of assets	826	–

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

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

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#### NOTE 1. GENERAL

##### (a) General description of the Group (as defined in b below) and its operations:

The Group is a global digital publisher and marketing company which attracts paying users from different online channels and directs them to online gambling operators.

The Group operates as a marketing affiliate to multiple gambling operators. The Group attracts players through online marketing techniques and subsequently seeks to channel high value "traffic" (i.e. players) to gambling operators who, in turn, convert such traffic into paying customers. Online gamblers are attracted by the Group's publications and advertisements and are then directed, by the Group, to online gambling operators in return for a share of the revenue generated by such players, a fee generated per player acquired, fixed fees or a hybrid of any of these three models.

For further information regarding online marketing and the Group's business segments see Note 17.

The Company commenced its operations on 22 April 2012 and purchased business activity and assets, for further details see Note 5(a).

The Company's registered office is in 12 Castle Street, St Helier, Jersey.

In November 2013 the Company signed an agreement to acquire the Subsidiary (as defined below) from the Parent Company for a consideration of USD 3.4 million, for more details see Note 5(c) and Note 22(b).

In December 2013 the Company entered into a Share Purchase Agreement with a new investor for consideration of USD 15 million, for more details see Note 14(b)2.

On 21 March 2014 the Company completed an Initial Public Offering ("IPO") on London Stock Exchange's Alternative Investment Market (AIM). The total gross funds raised in the IPO were GBP 32.8 million (USD 54.2 million). See also Note 23(a).

##### (b) Definitions:

In these financial statements:

Company	– XLMedia PLC (formerly known as Webpals Marketing Systems Ltd). For details regarding change of the Company's name see Note 22(c).
Parent Company	– Webpals Enterprises Limited Partnership
Subsidiary	– Webpals Systems S.C. Ltd, an affiliated company (both the Company and the Subsidiary were held by the Parent Company until November 2013). In November 2013 the Company acquired 100% of the share capital of the Subsidiary – see Note 22(b).
Group	– the Company and its consolidated subsidiaries
subsidiary	– entity that is controlled (as defined in IFRS 10) by the Company and whose accounts are consolidated with those of the Company.
related parties	– as defined in IAS 24
Dollar/USD	– U.S. dollar

#### 2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

##### (a) Basis of presentation of the consolidated financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the requirements of the Companies (Jersey) Law 1991.

The financial statements have been prepared on a cost basis.

The Company has elected to present profit or loss items using the function of expense method.

##### (b) Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company 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.

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

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#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

Potential voting rights are considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests in subsidiaries represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

#### (c) Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the date of acquisition with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the date of acquisition or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are expensed as incurred.

Contingent consideration is recognised at fair value on the acquisition date and classified as a financial asset or liability in accordance with IAS 39. Subsequent changes in the fair value of the contingent consideration are recognised in the statement of income or in the statement of comprehensive income. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognises the resulting gain on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of evaluation of impairment of goodwill, goodwill purchased in a business combination is evaluated and attributed to the cash-generating units to which it had been allocated.

Non-controlling interests of an entity represent the non-controlling shareholders' share of the net income and comprehensive income of the entity and their share of the net assets at fair value upon the acquisition of the entity. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

Business combinations in which the Company acquires an entity that is under the common control of the Parent Company is accounted for in a similar manner to a pooling of interests (see also Note 5(c)). The effect of this accounting is to reflect the financial position, results of operations and cash flows of the acquiree as if it had been a subsidiary of the Company for the entire period in which the acquiree had been under the control of the Parent Company. Accordingly, the assets acquired and liabilities assumed are recorded based on their carrying amounts as reflected in the financial statements of the acquiree prior to the business combination. The excess of the consideration paid by the Company over the carrying amount of the net assets acquired is recorded as a reduction of equity in the statement of changes in equity.

#### (d) Functional currency, presentation currency and foreign currency:

1. *Functional currency and presentation currency:*  
The functional and presentation currency of the Company and of its subsidiaries is the U.S. dollar ("Dollar" or "USD").
2. *Transactions, assets and liabilities in foreign currency:*  
Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalised to qualifying assets or recorded in equity in hedges,

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

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#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

are recognised in profit or loss. Non-monetary assets and liabilities measured at cost in foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

##### (e) Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

##### (f) Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of acquisition. The deposits are presented according to their terms of deposit.

##### (g) Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful. Impaired debts are derecognised when they are assessed as uncollectible.

##### (h) Revenue recognition:

Revenues are recognised in profit or loss when the services are provided; the revenues can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received.

The Company usually works with its customers on a performance basis, and recognises revenues according to revenue share model or one-time payment per user acquisition.

##### (i) Taxes on income:

Taxes on income in profit or loss comprise current and deferred taxes. Current or deferred taxes are recognised in profit or loss, except to the extent that the tax arises from items which are recognised directly in other comprehensive income or in equity. In such cases, the tax effect is also recognised in the relevant item.

###### 1. Current taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

###### 2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes.

Deferred taxes are measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognised in other comprehensive income or in equity.

Deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets or non-current liabilities, respectively. Deferred taxes are offset in the statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

##### (j) Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	mainly %
Motor vehicles	15%
Office furniture and equipment	10%
Computers and peripheral equipment	33%

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term (including any extension option held by the Group and intended to be exercised) and the expected life of the improvement.

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised. An asset is derecognised on disposal or when no further economic benefits are expected from its use.

##### (k) Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with a finite useful life are amortised over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively as changes in accounting estimates. The amortisation of intangible assets with finite useful lives is recognised in profit or loss.

Intangible assets with indefinite useful lives are not systematically amortised and are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired. The useful life of these assets is reviewed annually to determine whether their indefinite life assessment continues to be supportable. If the events and circumstances do not continue to support the assessment, the change in the useful life assessment from indefinite to finite is accounted for prospectively as a change in accounting estimate and on that date the asset is tested for impairment. Commencing from that date, the asset is amortised systematically over its useful life.

Gains or losses arising from the derecognition of an intangible asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss.

##### Software:

The Group's assets include computer systems comprising hardware and software. Software forming an integral part of the hardware to the extent that the hardware cannot function without the programs installed on it is classified as property, plant and equipment. In contrast, software that adds functionality to the hardware is classified as an intangible asset.

Intangible assets with a finite life are amortised on a straight-line basis over the useful life as follows:

	mainly %
Non-competition	33%
Systems and software (purchased)	33%

Non-competition is amortised over the non-competition agreement term.

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

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#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

##### (l) Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior years, and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognised in profit or loss.

The following criteria are applied in assessing impairment of these specific assets:

##### 1. *Goodwill in respect of subsidiaries:*

The Company reviews goodwill for impairment once a year as of 31 December or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognised if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill. Impairment losses recognised for goodwill cannot be reversed in subsequent periods.

##### 2. *Intangible assets with an indefinite useful life that have not yet been systematically amortised:*

The impairment test is performed annually, on 31 December, or more frequently if events or changes in circumstances indicate that there is an impairment.

##### (m) Financial instruments:

##### 1. *Financial assets:*

The financial assets of the Group include cash and cash equivalents, short-term investments, and trade and other receivables. The financial assets are initially recognised at fair value plus directly attributable transaction costs and subsequently measured based on its terms at amortised cost, using the effective interest method. The amortisation of the effective interest is recognised in profit or loss as finance expenses or income.

##### 2. *Financial liabilities:*

The financial liabilities of the Group include trade and other account payables, liabilities to related parties and contingent consideration payable. The financial liabilities are initially recognised at fair value less directly attributable transaction costs and subsequently measured based on their terms at amortised costs, using the effective interest method. The amortisation of the effective interest is recognised in profit or loss as finance expenses or income.

##### 3. *Offsetting financial instruments:*

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognised amounts and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

##### 4. *Derecognition of financial instruments:*

##### a) Financial assets:

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire.

##### b) Financial liabilities:

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.



## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

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#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

##### (n) Provisions:

A provision in accordance with IAS 37 is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense is recognised in profit or loss net of the reimbursed amount.

##### (o) Employee benefit liabilities:

The Group has several employee benefit plans:

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

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognised as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognised when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

###### 2. *Post-employment benefits:*

The plans are financed by contributions to insurance companies and classified as defined contribution plans.

The Subsidiary has defined contribution plans pursuant to Section 14 to the Severance Pay Law under which the Subsidiary pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods. Contributions to the defined contribution plan in respect of severance or retirement pay are recognised as an expense when contributed concurrently with performance of the employee's services.

##### (p) Share-based payment transactions:

The Company's employees and officers are entitled to remuneration in the form of equity-settled share-based payment transactions.

Equity-settled transactions:

The cost of equity-settled transactions with employees and officers is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

The cost of equity-settled transactions is recognised in profit or loss together with a corresponding increase in equity during the period which the performance is to be satisfied ending on the date on which the relevant employees or officers become entitled to the award ("the vesting period"). The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

##### (q) Earnings per share:

Earnings per share are calculated by dividing the net income attributable to equity holders of the Company by the number of Ordinary Shares outstanding during the period. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company. If the number of Ordinary Shares outstanding increases as a result of a capitalisation, bonus issue, or share split, the calculation of earnings per share for all periods presented are adjusted retrospectively.

Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

##### (r) Research and development:

Research and development costs are charged to profit and loss as incurred as development costs did not meet the criteria for recognition as an intangible asset.

##### (s) Fair value measurement:

Fair value is the price that would be received to settle an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

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#### NOTE 2. SIGNIFICANT ACCOUNTING POLICIES continued

assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

##### (t) New accounting standards

In 2013 the Company adopted the following new accounting standards, which had no effect on the financial statements – IFRS 10, Consolidated Financial Statements, IFRS 12, Disclosure of Interest in Other Entities, and IFRS 13, Fair Value Measurement.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities.

IFRS 12 requires additional disclosures to be made, but has no effect on the financial position or performance of the Company.

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.

#### NOTE 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

##### (a) Judgments:

In the process of applying the significant accounting policies, the Group has made the following judgments which have the most significant effect on the amounts recognised in the financial statements:

- Business combinations:  
The Group is required to allocate the acquisition cost of entities and activities through business combinations on the basis of the fair value of the acquired assets and assumed liabilities. The Group uses external and internal valuations to determine the fair value. The valuations include management estimates and assumptions as for future cash flow projections from the acquired business and selection of models to compute the fair value of the acquired components and their depreciation period. Management estimates influence the amounts of the acquired assets and assumed liabilities and depreciation and amortisation in profit or loss.
- Share-based payments:  
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determination of the most appropriate valuation model and the inputs to the model. Management estimates influence the cost of share-based payments and the recognition in profit or loss.

##### (b) Estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Impairment of goodwill and other intangible assets:  
The Group reviews goodwill and other intangible assets for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit to which the assets are allocated and also to choose a suitable discount rate for those cash flows.

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 4. DISCLOSURE OF NEW STANDARDS

Standards and interpretations that have been issued and are relevant to the Company's financial statements and activities, but are not yet effective, are described below.

##### (a) Amendments to IAS 32, "Financial Instruments: Presentation regarding Offsetting Financial Assets and Financial Liabilities":

The IASB issued amendments to IAS 32 ("the amendments to IAS 32") regarding the offsetting of financial assets and financial liabilities. The amendments to IAS 32 clarify, among others, the meaning of "currently has a legally enforceable right of set-off" ("the right of set-off"). Among others, the amendments to IAS 32 prescribe that the right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. The amendments to IAS 32 also state that in order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

The amendments to IAS 32 are to be applied retrospectively from the financial statements for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The Company believes that the amendments to IAS 32 are not expected to have a material impact on the financial statements.

##### (b) IFRS 9, "Financial Instruments":

1. The IASB issued IFRS 9, "Financial Instruments", the first part of Phase 1 of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 ("IFRS 9") focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.
2. Amendments regarding derecognition and financial liabilities (Phase 2) were published. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and to financial liabilities for which the fair value option has not been elected (designated as measured at fair value through profit or loss); that is, the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

The IASB did not set a mandatory effective date for IFRS 9. Early application is permitted provided that the Company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the first part of Phase 1). Upon initial application, the amendments are to be applied retrospectively by providing the required disclosure or restating comparative figures, except as specified in the amendments.

The Company is currently evaluating the impact, if any, of the adoption of IFRS 9.

##### (c) Amendments to IAS 36, "Impairment of Assets":

In May 2013, the IASB issued amendments to IAS 36, "Impairment of Assets" ("the amendments") regarding the disclosure requirements of fair value less costs of disposal. The amendments include additional disclosure requirements of the recoverable amount and fair value. The additional disclosures include the fair value hierarchy, the valuation techniques and changes therein, the discount rates and the principal assumptions underlying the valuations.

The amendments are effective for annual periods beginning on January 1, 2014 or thereafter. Earlier application is permitted.

The appropriate disclosures will be included in the Company's financial statements upon the first-time adoption of the amendments.

#### NOTE 5. BUSINESS COMBINATIONS

##### (a) Assets Purchase Agreements ("APA")

The Company and the Subsidiary were established in April 2012, for the purpose of entering into APA, to purchase all the business activity and the related assets and liabilities of Webpals Marketing Limited ("WPM") and Webpals Ltd ("WPS"), respectively. WPM and WPS (together "Predecessor Companies") were affiliated companies under common ownership.

The following agreements were executed on 22 April 2012:

##### (i) Asset Purchase Agreement by the Company:

The Company acquired the business activities and the related assets and liabilities (excluding cash and cash equivalents and certain non-trading liabilities) of WPM for the consideration of USD 4.2 million. In addition, the

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

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#### NOTE 5. BUSINESS COMBINATIONS continued

agreement provided that in the event the Company's net profits within the two year period commencing on 1 January 2012 exceed USD 5 million, the Company will be obligated to pay WPM additional consideration of USD 5 million ("contingent consideration") within 60 days of the publication of the Company's audited accounts for the period ending 31 December 2013. In addition, in the event on 31 December 2012 a net cash amount of at least USD 4 million has accumulated in the Company, USD 2 million shall be paid to WPM on account of the aforesaid additional USD 5 million.

As of the acquisition date, the acquiree's key performance indicators clearly indicated that the achievement of the profit target was probable. Accordingly, the fair value of the contingent consideration was recorded in full to reflect the additional consideration.

The contingent consideration payable was initially recognised at its fair value and is measured at amortised cost, using the effective interest method. The amortisation of the effective interest is recognised in profit or loss as finance income or expenses.

As of 31 December 2012 the carrying amount of this liability was USD 4.69 million comprised of the following: USD 2 million is included in current liabilities and the remaining amount of USD 2.69 million is included in non-current liabilities

In January 2013 the Company paid USD 2 million on account of the contingent consideration.

As of 31 December 2013 the carrying amount of this liability was USD 2.96 million.

#### (ii) *Asset Purchase Agreement by the Subsidiary:*

The Subsidiary, which was established shortly prior to the APA, acquired the business activities and the related assets and liabilities (excluding certain non-trading liabilities) of WPS for consideration of USD 800 thousands. In addition, the Subsidiary undertook to enter into employment or service agreements with WPS's employees.

#### (iii) *Shareholders Loan Agreements*

The Company and the Subsidiary each signed a Loan Agreement with Z.E.M.L.H Israel – Limited Partnership, the controlling shareholder of the Parent Company ("ZEMMLH"). The Company and the Subsidiary received a loan of USD 4.2 million and USD 800 thousands, respectively. Both loans bear annual interest of 9%. Repayment of each loan was agreed to occur no later than 24 months from 22 April 2012. The interest shall be paid each quarter at the beginning of the quarter starting July 2012 until full repayment of the loan.

Repayment of the loans is prior and preferable to any dividend or other distribution of the Company or the Subsidiary, and is superior and senior to the repayment of any other loan provided to the Company and the Subsidiary, unless determined otherwise by their boards of directors.

The loans were initially recognised at their fair value and were measured based on their terms at amortised cost, using the effective interest method. The amortisation of the effective interest was recognised in profit or loss as finance income or expenses.

In 2012 the Company repaid the amount of USD 3.888 million, including interest. The carrying amount of the loan as of 31 December 2012 was USD 510 thousands. The loan was fully repaid in March 2013.

As of 31 December 2012 the carrying amount of the loan received by the Subsidiary was USD 840 thousands. The loan was fully repaid in May 2013.

#### (iv) *Service Agreements*

The Company and the Subsidiary each (through their Parent Company) entered into management service agreements with the shareholders of the Predecessor Companies ("Founders"). According to the service agreements, the companies will pay the Founders management fees at an amount determined by the following formula: for each payment made in favour of ZEMMLH with respect to the loans (see (iii) above) the Founders shall receive a total amount equal to the amount actually repaid to ZEMMLH with respect to the loans, multiplied by the holding percentage of the Founders in the holding in the company, that repays the loan, divided by the holding percentage held by ZEMMLH in that company on the time of such repayment. In other words, the management fees will be paid according to the loan repayments, pro-rata to the actual Founders' holdings in the company.

The liabilities for management fees were initially recognised at their fair value and were measured based on their terms at amortised cost, using the effective interest method. The amortisation of the effective interest was recognised in profit or loss as finance income or expenses.

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 5. BUSINESS COMBINATIONS continued

In 2012, subsequently to the loan payments (see (iii) above), the Company repaid the amount of USD 3.312 million, including interest. The carrying amount of the liability as of 31 December 2012 was USD 434 thousands. The liability was fully repaid in March 2013.

The carrying amount of the liability for management fees by the Subsidiary as of 31 December 2012 was USD 715 thousands. The liability was fully repaid in May 2013.

The total cost of the above agreements which are accounted for as a business combination was USD 14.513 million and comprised a cash payment on closing date of USD 5 million, financed by the ZEMLH loans, and an amount due of approximately USD 9.513 million, as detailed in the table below.

Acquisition costs that were directly attributable to the transaction of approximately USD 190 thousand were expensed.

#### Total acquisition cost:

	As of 22 April 2012		
	The Company	The Subsidiary	Total
	USD in thousands, the fair value		
The loans (used for cash payment) – see (iii) above	4,526	862	5,388
Liability for management fees – see (iv) above	3,856	734	4,590
Contingent consideration payable	4,535	–	4,535
Total acquisition cost	12,917	1,596	14,513

#### Acquisition cost allocation:

	As of 22 April 2012		
	The Company	The Subsidiary	Total
	USD in thousands		
Total acquisition cost	12,917	1,596	14,513
Non-controlling interests	759	–	759
	13,676	1,596	15,272
Fair value of the acquired assets and liabilities:			
Working capital	1,851	28	1,879
Other financial assets, net	3,573	502	4,075
Property, plant and equipment	–	336	336
Intangible assets	6,486	80	6,566
Total fair value of the acquired assets and liabilities	11,910	946	12,856
Goodwill	1,766	650	2,416

The Group has elected to measure the non-controlling interests at their proportionate share in the fair value of the net acquired identifiable assets.

#### (b) Content and Search Joint Venture (“JV”)

In the frame of the Asset Purchase Agreement as described in (i) above, the Company acquired 80% interest in the Content and Search Joint Venture that is active in promoting websites in Finland.

On 29 August 2012, the Company signed a new JV agreement with the non-controlling interests. According to the new agreement the non-controlling interests had the right to buy up to 8% of the Company’s holdings in the JV for consideration of EURO 331 thousands, approximately USD 424 thousands. This option was exercised in September 2012 and since then the Company holds a 72% interest in the JV. As a result of the sale of 8%, the difference between the consideration and the increase in the non-controlling interests the Company recorded a capital reserve

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 5. BUSINESS COMBINATIONS continued

in the amount of USD 106 thousands. The consideration was paid in 2012 and 2013 USD thousands 393 and USD 31 thousands respectively.

In addition, according to the new JV agreement the Company has the option to purchase the non-controlling interest in the JV based on a valuation determined by the JV's profits for the last 12 months preceding the exercise multiplied by 9. The option was recognised at a zero fair value, and therefore no asset is recorded in the financial statements.

According to the JV agreement the Company and non-controlling interests shall finance assets acquisitions by JV pro rata to their holdings percentages in JV. In 2013 and 2012 non-controlling interest invested USD 10 thousands and USD 75 thousands in assets acquired by JV, which were recorded as an increase of non-controlling interests in statements of changes in equity.

The Group has elected to measure the non-controlling interests in the JV at their proportionate share of the non-controlling interests of the fair value of the JV's net identifiable assets.

#### (c) Acquisition of the Subsidiary

In November 2013 the Company signed an agreement to acquire the Subsidiary from the Parent Company for the consideration of USD 3.4 million (for more details see Note 22(b)). Since the acquisition of the Subsidiary is a business combination involving entities under common control, this acquisition is not a business combination within the scope of IFRS 3, *Business Combinations*. The Company accounted for the acquisition in a manner similar to a pooling of interests and accordingly, the excess cash paid over the carrying amount of the net assets acquired of the Subsidiary was recorded as a reduction of equity.

#### NOTE 6. SHORT-TERM AND LONG-TERM INVESTMENTS

	As of 31 December	
	2013	2012
	USD in thousands	
Short-term bank deposits	428	130
Long-term bank deposits	340	–
	<b>768</b>	130

The Group recorded fixed liens on short-term bank deposits against bank credit for credit card transactions in connection with advertising campaigns and other online purchasing over the internet. The total amount of deposits in connection with credit card transactions as of 31 December 2013 was USD 428 thousands.

In addition the Group recorded fixed lien on long-term bank deposit, against bank guarantee provided in connection with its lease agreement on property, in the amount of USD 340 thousands.

#### NOTE 7. TRADE AND OTHER RECEIVABLES

##### a. Trade receivables:

	As of 31 December	
	2013	2012
	USD in thousands	
Open accounts	4,636	2,952
Less – allowance for doubtful accounts	138	–
Trade receivables, net	<b>4,498</b>	2,952

As of 31 December 2013 the Company has no material amounts that are past due but not impaired.

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 7. TRADE AND OTHER RECEIVABLES continued

##### b. Other receivables:

	As of 31 December	
	2013	2012
	USD in thousands	
Government authorities	206	435
Prepaid costs for share capital issuance	707	–
Prepaid expenses	613	421
Current maturity of long-term receivables – see Note 22(a)	353	–
Other receivables	95	–
	<b>1,974</b>	<b>856</b>

#### NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	Computers, furniture and office equipment	Motor vehicles	Leasehold improvements	Total
	USD in thousands			
<b>Cost:</b>				
Balance as of 22 April 2012	–	–	–	–
Business combination*	223	60	53	336
Acquisitions during the period	180	–	–	180
Balance as of 31 December 2012	403	60	53	516
Acquisitions during the year	413	–	69	482
<b>Balance as of 31 December 2013</b>	<b>816</b>	<b>60</b>	<b>122</b>	<b>998</b>
<b>Accumulated depreciation:</b>				
Balance as of 22 April 2012	–	–	–	–
Depreciation during the period	50	8	4	62
Balance as of 31 December 2012	50	8	4	62
Depreciation during the year	137	11	50	198
<b>Balance as of 31 December 2013</b>	<b>187</b>	<b>19</b>	<b>54</b>	<b>260</b>
<b>Depreciated cost as of 31 December 2013</b>	<b>629</b>	<b>41</b>	<b>68</b>	<b>738</b>
Depreciated cost as of 31 December 2012	353	52	49	454

Depreciation expense of property, plant and equipment is recorded in general and administrative expenses.

\* See Note 5(a).



## Notes to Consolidated Financial Statements For the year ended 31 December 2013

### NOTE 9. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill	Domains	Non-competition	Systems and software	Total
<b>Cost:</b>					
Balance as of 22 April 2012	–	–	–	–	–
Business combination *	2,416	5,165	1,401	–	8,982
Acquisitions during the period	–	757	–	286	1,043
Balance as of 31 December 2012	2,416	5,922	1,401	286	10,025
Acquisitions during the year	–	345	–	591	936
Disposal during the year – see Note 22(a)	–	(772)	–	–	(772)
<b>Balance as of 31 December 2013</b>	<b>2,416</b>	<b>5,495</b>	<b>1,401</b>	<b>877</b>	<b>10,189</b>
<b>Accumulated amortisation:</b>					
Amortisation during the period	–	–	322	2	324
Balance as of 31 December 2012	–	–	322	2	324
Amortisation during the year	–	–	468	128	596
<b>Balance as of 31 December 2013</b>	<b>–</b>	<b>–</b>	<b>790</b>	<b>130</b>	<b>920</b>
<b>Amortised cost as of 31 December 2013</b>	<b>2,416</b>	<b>5,495</b>	<b>611</b>	<b>747</b>	<b>9,269</b>
Amortised cost as of 31 December 2012	2,416	5,922	1,079	284	9,701

\* See Note 5(a).

Amortisation expense of intangible assets is classified in profit or loss in general and administrative expenses.

#### *Impairment of goodwill and intangible assets with an indefinite useful life:*

The goodwill and domains are allocated to the cash generating unit representing Content segment ("the unit"). The recoverable amount of this unit was determined based on the value in use which is calculated at the expected estimated future cash flows from the unit, as determined by the Company's management. The pre-tax discount rate of the cash flows is 26% (2012 – 27.1%). The projected cash flows for the period exceeding three years are estimated using a fixed growth rate of 3% (2012-3%).

#### *The key assumptions used in calculating the value in use:*

The value in use for the unit is liable to change if any change occurs in the following assumptions:

- Direct profit.
- Discount rate.
- Market share during the budget period.
- Growth rate for the period exceeding the three budget years.

**Direct profit** – the profit rate assumed approximately 50% per annum based on management expectations as reflected in the three year budget approved by the Company's management.

**Discount rate** – the discount rate reflects management's assumptions regarding unit's specific risk premium. This discount rate forms a standard basis used by management to estimate its operations and assess prospective investments.

**Market share** – management's assumptions regarding market share are highly important since, in addition to being used to calculate the growth rate, management's assumptions regarding the operation of the unit compared to the competition might change over the budget period. The Group anticipates that its average market share in the different markets it operates in will remain stable over the budget period.

**Growth rate** – the growth rate is based on the long-term average growth rate as customary in similar industries as well as on the Group's historical growth rates.



## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 9. GOODWILL AND OTHER INTANGIBLE ASSETS continued

*Sensitivity analyses of changes in assumptions:*

With respect to the assumptions used in determining the value in use of the unit, management believes that there are no reasonably possible changes in the key assumptions detailed above which might cause the carrying amount of the unit to exceed its recoverable amount.

#### NOTE 10. TRADE PAYABLES

	As of 31 December	
	2013	2012
	USD in thousands	
Open accounts	954	382
Notes payable	582	472
	<b>1,536</b>	854

#### NOTE 11. OTHER LIABILITIES AND ACCOUNTS PAYABLE

	As of 31 December	
	2013	2012
	USD in thousands	
Advances from customers	20	51
Accrued expenses	442	414
Employees and payroll accruals	650	317
Government authorities	136	109
Dividend payable to non-controlling interest	237	–
Other liabilities	161	–
	<b>1,646</b>	891

#### NOTE 12. NON-CURRENT LIABILITIES TO RELATED PARTIES

	As of 31 December	
	2013	2012
	USD in thousands	
Liabilities for managements fees – see Note 5(a) (iv)	–	1,149
Loans from related party – see Note 5(a) (iii)	–	1,350
	–	2,499

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 13. FINANCIAL INSTRUMENTS

##### (a) Classification of financial assets and liabilities:

The financial assets and financial liabilities in the statement of financial position are classified by groups of financial instruments pursuant to IAS 39:

	As of 31 December	
	2013	2012
	USD in thousands	
Financial assets measured at amortised cost:		
Cash and cash equivalents	15,455	2,562
Short-term and long-term investments	768	130
Trade receivables	4,498	2,952
Related parties	147	692
Other receivables	448	–
Non-current account receivable	552	–
	21,868	6,336
Financial liabilities measured at amortised cost:		
Trade payables	1,536	854
Other payables	1,490	731
Liabilities to Related Parties	605	2,499
Contingent consideration payable	2,867	4,690
Other non-current account payable	227	341
	6,725	9,115

##### (b) Financial risks factors:

The Group's activities expose it to various financial risks.

##### 1. Market risk – Foreign exchange risk:

A significant portion of the Company's revenues are received in EURO. The majority of the Subsidiary's expenses in Israel are paid in New Israeli Shekels ("NIS"). Therefore, the Group is exposed to fluctuations in the foreign exchange rates in EURO and NIS against the USD. The Group does not invest in foreign currency contracts to mitigate the risks.

##### 2. Credit risk:

The Company has 3 major customers – see Note 17.

The Company extends 30-day payment terms to its customers. The Company regularly monitors the credit extended to its customers and their general financial condition but does not require collateral as security for these receivables.

The Company maintains cash and cash equivalents and short-term investments in various financial institutions. These financial institutions are located in different geographical areas around the world. The Company's policy is to diversify its investments among the various institutions. According to the Company's policy, the relative credit stability of the various financial institutions is evaluated on a regular basis.

##### 3. Liquidity risk:

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments (including interest payments):

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 13. FINANCIAL INSTRUMENTS continued

As of 31 December 2013:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
USD in thousands							
Trade payables	1,536	–	–	–	–	–	1,536
Other payables	1,646	–	–	–	–	–	1,646
Other non-current liabilities	165	165	83	–	–	–	413
Liabilities to Related Parties	605	–	–	–	–	–	605
Contingent consideration payable	3,000	–	–	–	–	–	3,000
	6,952	165	83	–	–	–	7,200

As of 31 December 2012:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
USD in thousands							
Trade payables	854	–	–	–	–	–	854
Payables	891	–	–	–	–	–	891
Other non-current liabilities	–	–	–	198	198	–	396
Liabilities to Related Parties	–	2,381	–	–	–	–	2,381
Contingent consideration payable	–	5,000	–	–	–	–	5,000
	1,745	7,381	–	198	198	–	9,522

#### (c) Fair value:

The carrying amounts of the Group's financial assets and liabilities approximate their fair value.

The fair value of shareholder loan, contingent consideration payable, liability for management fees and other non-current liability upon initial recognition was based on the computation of the present value of future cash flows using an interest rate of 5% that was currently available for loans with similar terms.

#### (d) Sensitivity tests relating to changes in market factors:

	As of 31 December	
	2013	2012
USD in thousands		
<b>Sensitivity test to changes in Euro to Dollar exchange rate:</b>		
Gain (loss) from the change:		
Increase of 10% in exchange rate	328	145
Decrease of 10% in exchange rate	(328)	(145)
<b>Sensitivity test to changes in NIS to Dollar exchange rate:</b>		
Gain (loss) from the change:		
Increase of 10% in exchange rate	(12)	63
Decrease of 10% in exchange rate	15	(77)

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 13. FINANCIAL INSTRUMENTS continued

##### Sensitivity tests and principal work assumptions:

The selected changes in the relevant risk variables were determined based on management's estimate as to reasonable possible changes in these risk variables.

The Company has performed sensitivity tests of principal market risk factors that are liable to affect its reported operating results or financial position. The sensitivity tests present the profit or loss and/or change in equity (before tax) in respect of each financial instrument for the relevant risk variable chosen for that instrument as of each reporting date. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition of each risk with reference to the functional currency and assuming that all the other variables are constant.

The Group is not exposed to interest rate risk in respect of long-term loans with fixed interest.

#### NOTE 14. EQUITY

##### (a) Composition of share capital:

As of 31 December 2013		
	Authorised	Issued and outstanding
	Number of shares	
Ordinary Shares of USD 0.000001 par value	100,000,000,000	120,160,000
As of 31 December 2012		
	Authorised	Issued and outstanding
	Number of shares	
Ordinary Shares of USD 0.000001 par value	100,000,000,000	100,000,000

##### (b) Movement in share capital:

- In June 2013 the Company's shareholders authorised and approved the effectuation of a 1:100 share split of the authorised share capital of the Company ("Split I"), so that all the Company's shares, shall be subject to the Split I (i.e. each share, USD 1.00 par value, shall split into 100 shares, USD 0.01 par value each). Following the Split I the Company's authorised share capital consisted of 10,000,000 Ordinary Shares par value USD 0.01, of which 10,000 shares were issued and outstanding.

In December 2013 the Company's shareholders authorised and approved the effectuation of 1:10,000 share split of the authorised share capital of the Company ("Split II"), so that all the Company's shares shall be subject to the Split II (i.e. each share, USD 0.01 par value, shall split into 10,000 shares, USD 0.000001 par value each), and adjustment of all the Company's securities effectuated by the Split II, to correspond with the Split II. Following the Split II the Company's authorised share capital consists of 100,000,000,000 Ordinary Shares par value USD 0.000001, of which 100,000,000 shares are issued and outstanding.

- On 5 December 2013 the Company has entered into a Share Purchase Agreement ("SPA") with a new investor under which the Company issued 20,160,000 Ordinary shares, par value USD 0.000001 each constituting 16.78% of the Company's capital for consideration for USD 15 million. The transaction related costs in amount of USD 689 thousands were deducted from the consideration in the statement of changes in equity.

The agreement provides for the investor to receive additional Ordinary shares for no further consideration to the extent that an IPO is completed within six months of closing at a price per share that is less than 25% higher than the price per Ordinary share (as may be adjusted in the interim) paid by the investor under the terms of the agreement. As a consequence of this, the Company issued to the investor an additional 2,377,500 Ordinary shares following the IPO in March 2014.

- For further details on the IPO see Note 23(a).

##### (c) Dividends:

- During 2013 and 2012 the Company paid dividends to the non-controlling interests in the amounts of USD 2,295 and 1,011 thousands respectively.

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 14. EQUITY continued

- In August 2013 the Company declared and paid a dividend in the amount of USD 1.8 million.
- In November 2013 the Company acquired 100% of the shares of the Subsidiary from the Parent Company for the consideration of USD 3.4 million that was recorded as a dividend to equity holders of the Company (for more details see Note 5(c) and Note 22(b)).
- For dividend paid in 2014 see Note 23(c).

#### (d) Net earnings per share:

Details of the number of shares and income used in the computation of earnings per share:

	Year ended 31 December 2013		Period from 22 April (inception) to 31 December 2012	
	Weighted number of shares	Net income attributable to equity holders of the Company	Weighted number of shares	Net income attributable to equity holders of the Company
	In thousands	USD thousands	In thousands	USD in thousands
Number of shares and income for the computation of basic net earnings	101,436	8,838	100,000	6,856
Effect of potential dilutive Ordinary shares*	384	–	–	–
For the computation of diluted net earnings	101,820	8,838	100,000	6,856

\* For the 3,250,000 options to the employees granted in October 2013 – see Note 15.

#### NOTE 15. SHARE-BASED PAYMENT

In August 2013 the Company adopted a Share Option Plan. According to the plan, the Company's Board of Directors is entitled to grant certain employees, officers and other service providers (together herein "employees") of the Company (including its present and future subsidiaries) remuneration in the form of equity-settled share-based payment transactions that are measured based on the increase in the Company's share price.

Pursuant to the plan, subject to the Company's Board of Directors' approval, the Company's employees will be granted with options exercisable into a corresponding number of the Company's ordinary shares. Grants to Israeli employees will be made in accordance with Section 102 of the Income Tax Ordinance, capital-gains track (with a trustee).

These options may be exercised, subject to the continuance of engagement of such employees with the Company, within a period of eight years, at an exercise price to be determined by the Company's Board of Directors.

In addition, in October 2013, the Company's Board of Directors resolved, within the framework of the plan, to grant certain employees, an aggregate amount of 3,250,000 options, exercisable into 3,250,000 Ordinary shares of the Company ("Options A"). The exercise price of Options A is USD 0.1540 per each share.

Subject to the terms of the plan, each of the Options A optionees will be entitled to exercise the options into shares in accordance with the following vesting scheme: 25% of the options have vested on 22 April 2013 ('cliff') and the remaining 75% of the options will vest on a quarterly basis over a period of 3 years, in equal portions, i.e. 6.25% per each calendar quarter.

#### Measurement of the fair value of equity-settled share options:

The Company uses the binomial option pricing model when estimating the grant date fair value of equity-settled share options. The measurement was made at the grant date of equity-settled share options since the options were granted to employees.

The following table lists the inputs to the binomial model used for the fair value measurement of equity-settled share options for the above plan:

Expected volatility of the share price – 42.38%

Risk-free interest rate – 2.47%

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 15. SHARE-BASED PAYMENT continued

Expected life of the share options – 8 years

Share price – in the range of USD 0.338 and USD 0.744 based on the average probability of certain conditions.

Based on the above inputs, the fair value of Options A was determined at USD 875 thousands at the grant date, USD 479 thousands of which were recognised as expenses in 2013.

For details regarding exercise of part of the Options A see Note 23(d).

For details regarding share options granted in 2014 see Note 23(b).

#### NOTE 16. TAXES ON INCOME

(a) The Company was incorporated in Seychelles under the International Business Companies Act, 1994, and was a tax-free corporation. In November 2013 the Company moved its place of incorporation to Jersey – see Note 22(c). The change in place of incorporation does not expect to change the Company's tax status.

Tax law applicable to the Subsidiary is the Israeli tax law – Income Tax Ordinance (new version) 1961.

The Israeli corporate tax rate applicable in 2012 and 2013 is 25%.

In July 2013, the Israeli Parliament approved the Economic Plan for 2013-2014 which consists, among others, of the changes in the Israeli corporate tax rate from 25% to 26.5% effective from January 2014.

The tax rate applicable to the Cyprus branch of the Company is 12.5%.

(b) Final tax assessments:

The Company and its subsidiaries have not received final tax assessments since their incorporation.

(c) Taxes on income included in profit or loss:

	Year ended 31 December 2013	Period from 22 April (inception) to 31 December 2012
	USD in thousands	
Current taxes	552	82

#### (d) Theoretical tax:

The reconciliation between the tax expense, assuming that all the income and expenses, were taxed at the statutory tax rate (principally in Seychelles and Jersey) and the taxes on income recorded in profit or loss is as follows:

	Year ended 31 December 2013	Period from 22 April (inception) to 31 December 2012
	USD in thousands	
Income before taxes on income	11,661	7,938
Tax at the domestic rate applicable to the profits of the Company	–	–
Tax at the domestic rates applicable to profits of the Subsidiary and Cyprus branch	552	82
Total taxes	552	82

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 17. OPERATING SEGMENTS

##### (a) General:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. Accordingly, for management purposes, the Group is organised into operating segments based on the products and services of the business units and has operating segments as follows:

Content and Search Engine Optimisation ("Content")	– The Group earns the majority of its revenue from the monetisation of traffic generated by its own portfolio of websites. The Group owns more than 2,000 websites which provide gambling related content, in 17 languages, to potential players. The sites' content, written by professional writers, is designed to attract online gamblers which the Group then directs to gambling operators. The sites either direct players to a certain operator or will allow the players to select the operator most relevant to their requirements.
Media	– The Group's Media Buying division acquires online advertising Media targeted at potential players with the objective of directing them to the Group's customers. The Group buys advertising space on search engines, websites and social networks and places adverts referring potential players to the Group's customers' websites or to its own websites.
Affiliates Network	– The Group manages affiliates, whose role is to direct potential players to the Group's customers for which the Group receives revenues. The Group is then responsible for paying its affiliate partners. The Group's affiliate programme enables affiliates to have a single point of contact to direct traffic to, and receive monies from, rather than engaging in multilateral negotiation, administration and collection of revenues.

Segment performance (segment income) is evaluated based on revenues less direct operating costs.

Items that were not allocated are managed on a group basis.

##### (b) Reporting on operating segments:

	Content segment	Media segment	Affiliates Network segment	Total
USD in thousands				
<b>Year ended 31 December 2013:</b>				
Revenues	18,840	10,071	5,592	34,503
Segment profit	14,234	5,583	632	20,449
Unallocated corporate expenses				(8,447)
Other income, net				32
Finance expense, net				(373)
Profit before taxes on income				11,661
<b>Period from 22 April (inception) to 31 December 2012:</b>				
Revenues	10,237	4,996	2,499	17,732
Segment profit	7,629	3,190	442	11,261
Unallocated corporate expenses				(3,115)
Other expenses, net				(190)
Finance expense, net				(18)
Profit before taxes on income				7,938

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 17. OPERATING SEGMENTS continued

##### (c) Additional information about revenues:

Revenues from major customers, the revenues of whom amounted to 10% or more of total revenues reported in the financial statements:

	Year ended 31 December 2013	Period from 22 April (inception) to 31 December 2012
Customer A – all segments	25%	31%
Customer B – all segments	11%	9%
Customer C – all segments	10%	8%

##### (d) Geographic information:

Revenues classified by geographical areas based on internet user location:

	Year ended 31 December 2013
Scandinavia	21,748
Other European countries	4,708
North America	418
Other countries	760
Total revenues from identified locations	27,634
Revenues from unidentified locations	6,869
Total revenues	34,503

Prior to 2013 the Company was unable to identify the specific country in which the internet users were located.

#### NOTE 18. COMMITMENTS

- (a) In August 2013 the Group (as lessee) entered into new commercial real estate lease agreements. The leases are non-cancellable for periods of between 2-4 years with annual lease fees of about USD 517 thousands, commencing from August 2013.
- (b) For business combination agreements and commitments see Note 5.
- (c) For agreements with related parties see Note 5.
- (d) For fixed liens on deposits see Note 6.



## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 19. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

##### (a) Balances:

	As of 31 December	
	2013	2012
	USD in thousands	
<b>Assets:</b>		
Shareholders	23	132
WPM and WPS – balances arising from business combination	124	560
<b>Current liabilities:</b>		
Management fees payable	93	–
Consideration payable to shareholders as result of the Subsidiary acquisition – see Note 22(b)	512	–
	605	–
Contingent consideration payable	2,867	2,000
<b>Non-current liabilities:</b>		
Shareholders loans – see Note 5(a) (iii)	–	1,350
Liabilities to shareholders for management fees– see Note 5(a) (iv)	–	1,149
Contingent consideration payable – see Note 5(a)(i)	–	2,690

##### (b) Compensation of key management personnel of the Group:

	Year ended 31 December 2013	Period from 22 April (inception) to 31 December 2012
	USD in thousands	
Total compensation – short term benefits	422	111

##### (c) Transactions with related parties:

	Year ended 31 December 2013	Period from 22 April (inception) to 31 December 2012
	USD in thousands	
Management fees to shareholders *	1,159	274
Finance costs, on liabilities to shareholders, net	229	46

\* Including fees paid to key management personnel USD 299 thousands and USD 274 thousands in 2013 and 2012 respectively.

##### (d) Significant agreements with related parties:

Business combinations – see Note 5:

- Assets Purchase Agreement by the Company – 5(a)(i)
- Assets Purchase Agreement by the Subsidiary – 5(a)(ii)
- Shareholders loan agreements – 5(a)(iii)
- Service Agreements – 5(a)(iv)
- Acquisition agreement of the Subsidiary's shares– see Note 5 and Note 22(b)

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

#### NOTE 20. EMPLOYEE BENEFIT ASSETS AND LIABILITIES

The post-employment employee benefits are financed by contributions classified as defined contribution plan.

	Period from 22 April Year ended (inception) to 31 December 31 December 2013 2012	
	USD in thousands	
Expenses in respect of defined contribution plans	355	154

#### NOTE 21. SUPPLEMENTARY INFORMATION TO THE STATEMENTS OF INCOME

	Period from 22 April Year ended (inception) to 31 December 31 December 2013 2012	
	USD in thousands	
<b>Cost of revenues:</b>		
Salaries and wages	4,817	2,370
Media buying costs	3,199	1,177
Websites promotions and content	1,227	935
Affiliates network	4,811	1,990
	<b>14,054</b>	<b>6,472</b>

#### NOTE 22. SIGNIFICANT EVENTS DURING THE PERIOD

- (a) In July 2013 the Company entered into an agreement to sell its assets and business activity in Turkey (the "Sale Agreement"), for consideration of USD 1.5 million to be paid in 60 monthly instalments beginning 30 days after closing of the Sale Agreement.

The closing took place on 31 October 2013. As a result of the Sale Agreement the Company recognised a gain in amount of USD 32 thousands. As of 31 December 2013 the carrying amount of the consideration receivable was USD 905 thousands comprised of USD 353 thousands and USD 552 thousands which are included in current and non-current other receivables respectively.

In addition the Company entered into a Sale Service Agreement under which the Company will provide certain services including marketing and IT services to the purchaser for consideration of USD 150 thousands per quarter. The Company will also be entitled to an annual bonus as will be agreed between the parties. The Sale Service Agreement will be in force for at least 60 months commencing from the closing date. However, following a change of control in the Company, the purchaser will have the right to immediately terminate the service agreement within a period of 60 days following such change of control.

- (b) In November 2013 the Company (through a subsidiary founded for this purpose) entered into an agreement to buy 100% of the shares of the Subsidiary for the consideration of USD 3.4 million. As of 31 December 2013 the consideration payable was USD 512 thousands, which was paid in February 2014.
- (c) In November 2013 the Company moved its place of incorporation from Seychelles to Jersey and changed its name from Webpals Marketing Systems Ltd. to XLMedia Ltd. Upon the IPO in March 2014, the Company changed its name to its current name.

## Notes to Consolidated Financial Statements

### For the year ended 31 December 2013

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#### NOTE 23. SUBSEQUENT EVENTS

(a) On 21 March 2014 the Company completed an IPO on London Stock Exchange's Alternative Investment Market (AIM) by issuing 67,026,152 new Ordinary shares at a price of 49 pence per Ordinary share. The total gross funds raised in the IPO were GBP 32.8 million (USD 54.2 million at an exchange rate of GBP 1: USD1.649) and IPO related costs amounted to approximately USD 6.8 million. Following the IPO the Company issued 2,377,500 Ordinary shares to the new investor as described in Note 14(b)2. The issued share capital of the Company immediately following the IPO was 189,563,652 Ordinary shares.

(b) In February 2014, the Company granted the CEO 1,540,000 options to purchase 1,540,000 Ordinary shares ("Options B"). The exercise price of Options B is USD 0.154 per share. Options B vest over a period of three years from 1 January 2014. 25% of these options are deemed to have vested on 1 January 2014 with the remaining options vesting pro rata on a quarterly basis over the three year period.

In February 2014, the Company granted 1,260,000 options to the consultant of the Company to purchase 1,260,000 Ordinary shares at an exercise price of USD 0.154 ("Options C"). Options C vest over a period of 27 months from 1 January 2014. 44% of Options C are deemed to have vested on 22 January 2014 with the remaining options vesting pro rata on a quarterly basis over the 27 months period.

In February 2014, the Company granted 1,200,000 options to the employees of the Company to purchase 1,200,000 Ordinary shares at an exercise price equal to the price per share on admission to AIM ("Options D"). Options D vest over a period of four years from 1 January 2014. 25% of Options D shall vest on 1 January 2015 with the remaining options vesting pro rata on a quarterly basis over the remaining three year period.

In March 2014, the Company granted the CEO 1,000,000 options to purchase 1,000,000 Ordinary shares at an exercise price equal to the price per share on admission to AIM ("Options E"). Options E vest over a period of three years from the date of Admission pro rata on a quarterly basis over the three year period.

The total fair value of the above options granted in 2014 was determined at USD 2.8 million at the grant date.

(c) On 8 May 2014 the Company declared a dividend to shareholders on the register at 23 May 2014, of USD 5.25 million, approximately USD 0.03 per Ordinary share paid on 12 June 2014.

(d) On 3 June 2014 the Company issued 80,000 new Ordinary shares of USD 0.000001 par value each following the exercise of 80,000 Options A (see Note 15). The issued share capital of the Company immediately following the exercise is 189,643,652 Ordinary shares.

## Corporate Directory

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