07 March 2018

Bagir Group Ltd.

("Bagir" or the "Company")

Final Results

Bagir (**AIM: BAGR**), a designer, creator and provider of innovative tailoring, announces its final results for the year ended 31 December 2017.

2017 highlights

- Signed Share Purchase Agreement with Shangdong Ruyi Technology Group Ltd ("Shangdong Ruyi"), a leading Asian global textile manufacturer, for a proposed investment of $16.5m to acquire c.54% (c.51% on fully diluted basis) of the Company's enlarged issued share capital. The Directors believe that this transaction has the potential to transform the Company and its ability to compete and win major apparel manufacturing contracts from the world's largest retailers.
- Revenues of $51.1m in 2017, in line with revised expectations (2016: $64.1m).
- EBITDA* and Adjusted EBITDA** of $1.5m and $0.6m respectively in 2017, in line with revised expectations (2016: EBITDA* of $1.6m).
- Operating expenses*** reduced to $9.2m in 2017 (2016: $10.9m) as part of the overall operational cost saving plan, with the anticipation of reducing the overall operational cost base by approximately $2 million on an annualised basis (to be implemented during 2018).
- Strategic acquisition of the remaining 50% shareholding in Nazareth Garments, Ethiopia, completed in H1 2017. Further investments in machinery deployed during H2 2017 to increase production capacity. This competitive edge site combines tariff free trade and low production costs with good connectivity for onward distribution.
- New product development continued, along with signing an agreement with Israeli body measuring app Sizer to combine the expertise of both businesses to produce "made to measure" suits and other tailored garments for customers who provide their measurements online via the Sizer app.

* 'EBITDA' is a non-IFRS measure that the Company uses to measure its performance. It is defined as Earnings Before Interest, Taxation, Depreciation and Amortisation and non-cash share based compensation (in 2017 the Company adopted the IFRS 16 new accounting standard with regard to leasing contracts, which increased the annual depreciation in 2017 by c$0.6m).

** The Adjusted EBITDA figure in 2017 is the EBITDA* figure, excluding $0.9m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses.

*** Operating expenses consist of selling and marketing expenses, general and administrative expenses and development costs

Commenting on the results, CEO Eran Itzhak, said:

"During 2017 Bagir agreed three key transactions which are expected to form the basis of the Company's future success. The proposed agreement with Shandong Ruyi being the most material and potentially transforming. From a trading perspective Bagir experienced a challenging year, however, good progress was achieved in developing our key manufacturing sites together with further cost saving initiatives which will ensure we remain profitable and positioned to accelerate especially once the $16.5 million investment from Shandong Ruyi is completed."

The annual report and financial statements for the year ended 31 December 2017 will shortly be made available from the Company's website in accordance with AIM Rule 20.

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Strategic and financial review

Introduction

During 2017 the Company made significant progress agreeing three key strategic transactions that have significantly enhanced the future potential of the business. The first of these, namely the acquisition of the remaining 50% of our Ethiopian site, turned out to be a key factor in agreeing a strategic partnership with Shandong Ruyi alongside their proposed investment of $16.5 million. Finally, in December 2017 the Company signed an agreement with body measuring app Sizer. These together, and in particular, the agreement with Shandong Ruyi, are potentially transformative for Bagir's future.

Trading in 2017 reflected a challenging market environment. While interest from key global customers was high especially in the future manufacturing potential from our sites in Vietnam and longer term in Ethiopia, revenues in the period were slower than expected in part caused by a slower than anticipated order book and higher costs associated with investment in production lines in Vietnam.

Operational review

Bagir's strategy remains focused on creating internationally competitive manufacturing bases to combine with the Company's innovative tailoring capabilities, with the aim of then winning more major apparel manufacturing contracts from the world's largest retailers. To that end, Bagir has re-aligned its manufacturing bases to three key markets: Egypt; Ethiopia and Vietnam. The Directors believe that Ethiopia represents a unique opportunity to establish a market leading base over the medium to longer term.

However, strategically the Company's future has been potentially transformed by the agreement with Shandong Ruyi and their proposed $16.5 million investment into the business. Details of this agreement and progress towards seeking shareholders' approval are contained below.

The Board believes that an important element in Shandong Ruyi seeking to form a partnership with Bagir was the 100% ownership of the Ethiopian manufacturing base which the Group signed in February 2017. Gaining total control of this important asset has enabled the Company to accelerate its development and investment plans and this is expected to continue once the new capital is received from Shangdong Ruyi. Ethiopia offers significant commercial advantages as a manufacturing base given its tariff free trade and low production costs combined with good connectivity for onward distribution. The potential is clear and most recently the Company has invested in 3200 TRS production lines which are expected to be fully operational in 2018.

The third transaction completed in 2017 was with leading measuring app Sizer. In December 2017, the Company announced an innovative partnership with Sizer to produce 'made-to-measure' suits and other tailored garments for customers who provide their measurements online via the Sizer app. The technology behind the Sizer's market leading app when combined with Bagir's tailoring capabilities will potentially open up the made-to-measure market for suits to a much broader audience and at a much cheaper price point compared with a traditional tailor.2017 was a highly active year for the business, following on the back of the successful restructuring of the Company during 2015/2016 which saw the banks borrowings repaid and a c.30% reduction in annual costs. The focus on costs and efficiencies continues with a further $2 million of annualised costs identified to be taken out of the business in the current financial year.

Financial results

Revenue for 2017 was in line with revised management expectations and amounted to $51.1m compared with $64.1m for 2016. As announcement on 20 November 2017, the reduction is attributed mainly to slower order book than anticipated, particularly with regard to development of production lines in Vietnam.

The effect of this slowdown and delay in the Company's order book, coupled with an increase in manufacturing costs, including consolidation of costs of the development stage in Ethiopia, affected the gross margin for 2017 that was decreased to 15.0% compared with 16.4% for 2016.

Operating expenses (selling and marketing, general and administrative and development costs) for 2017 reduced compared with the same period last year to $9.2m (2016: $10.9m) as part of the overall operational cost saving plan along with reduction in variable selling expenses, with the anticipation for further significant cost saving programme during 2018.

Selling and marketing expenses decreased to $5.0m in 2017 (2016: $6.2m), development costs decreased to $0.8m in 2017 (2016: $1.7m) and general and administrative expenses increased to $3.3m in 2017 (2016: $3.1m).

In 2017, the Company adopted IFRS 16 new accounting standard with regard to leasing contracts. According to the standard, leasing contracts for longer than 12 months are presented as an asset and a liability in the financial statements at their present-value and depreciated over the contract period. Consequent to first implementation of this new accounting standard, the depreciation costs in 2017 increased by c$0.6m. for further details please see note 2(l) and 2(v) to the financial statements as of 31 December 2017.

The EBITDA* and the adjusted EBITDA** for 2017 amounted to $1.5m and $0.6m respectively, compared with EBITDA* of $1.6m in 2016.

The operating loss for 2017 amounted to $(0.6)m compared with $ (0.4)m in 2016.

The net loss for 2017 amounted to $(3.0)m, compared with a adjusted net loss of $(3.4)m in 2016. (2016 adjusted to exclude one-time $13.3m financial income from bank debt write-off).

Cash and cash equivalents at 31 December 2017 reduced to $2.6m compared with $8.6 at 31 December 2016, partly attributable to the acquisition and investment in Ethiopia.

Short term credit at 31 December 2017 amounted to $2.3m compared with $0.0m at 31 December 2016, mainly attributable to factoring facility changed to recourse terms and import financing facility.

* 'EBITDA' is a non-IFRS measure that the Company uses to measure its performance. It is defined as Earnings Before Interest, Taxation, Depreciation and Amortisation and non-cash share based compensation (in 2017 the Company adopted the IFRS 16 new accounting standard with regard to leasing contracts, which increased the annual depreciation in 2017 by c$0.6m).

** The Adjusted EBITDA figure in 2017 is the EBITDA* figure, excluding $0.9m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses.

Strategic partnership with Shandong Ruyi

On 23 November 2017 the Company announced that it had signed a proposed strategic partnership with Shangdong Ruyi, a leading Asian global textile manufacturer, alongside a proposed investment of $16.5 million to acquire c.54% (c. 51% fully diluted) of the Company's enlarged issued share capital.

Founded in 1972, Shandong Ruyi is one of the largest textile manufacturers in China and ranks among the Top 100 Chinese multi-national enterprises. The group predominately engages in textile offerings and owns a fully-integrated value chain with operations spanning across raw materials cultivation, textiles processing, and design and sale of brands & apparel. Headquartered in Jining, Shandong, the hometown of Confucius and Mencius, Shandong Ruyi operates 13 domestic industrial parks and boasts some of the largest production lines and advanced technologies in China. Shandong Ruyi also has significant distribution with more than 4,000 points of sales (POS) network that services a global customer base spread across 6 different continents. Shandong Ruyi has over 20 subsidiaries, with three listed subsidiaries in China, France and Japan.

The Directors of Bagir believe that through forming this strategic partnership with Shandong Ruyi together with the significant increase in capital, the transaction has the potential to transform the Company and its ability to compete and win major apparel manufacturing contracts from the world's largest retailers.

The Directors' rationale for the transaction is as follows:

- Shandong Ruyi has substantial retail/textile investments globally and is therefore well positioned to provide Bagir with significant new commercial opportunities.
- The new capital will:
    - be used partly to expand significantly the suit trouser and establish the jacket production lines in the Company's duty free and cost-competitive Ethiopian manufacturing base
    - enhance R&D and innovation activities
    - provide the working capital to support the growth

An initial payment of $1.65m was paid in January 2018, which is non-refundable in the event that Shandong Ruyi fails to secure Chinese regulatory consent but is refundable if Bagir's shareholders do not approve the transaction. The balance of the funds are to be paid post-shareholder approval.

- Shandong Ruyi and Bagir will evaluate ways in which Shandong Ruyi can provide additional future operational support to Bagir.

The transaction is subject to the approval of Bagir's shareholders and accordingly, a circular is expected to be posted to shareholders and provide full details of the proposed transaction and a notice convening a General Meeting. Bagir's articles include certain provisions which apply in the event that an investor seeks to acquire more than 30% of the voting shares in Bagir and further details on the applicability of these will be set out in the Circular.

Bagir has prepared the necessary shareholder circular and notice of EGM in order to approve the full investment by Shandong Ruyi Group. As part of the investment, one or more Director(s) will be nominated by Shandong Ruyi to join the Board of Bagir, subject to the completion of the necessary regulatory due diligence. Since these proposed directors also need to be approved by Bagir's

shareholders at the EGM, the shareholder circular and notice of EGM will be posted once Shangdong Ruyi has provided their details to Bagir.

Board changes in 2017

Donald Stewart stepped down as a director with effect from the end of June 2017 and the Board reiterates its thanks to him for his contribution to Bagir over the last few years.

The Board would also like to repeat its welcome to Esther Maoz and Jonathan Feldman who were appointed as an External Directors under Israeli Companies Law.

Outlook

2017 was undoubtedly a strategically important year for the business. Looking ahead for 2018, trading conditions are likely to be similar to those experienced in 2017 meaning that the actions taken to reduce costs will be important in order to ensure that the Company remains profitable. Alongside this, Bagir will be working to complete the agreement with Shandong Ruyi and invest behind the potential of our manufacturing bases, particularly Ethiopia, so that the Bagir is in the best possible place to be able to compete for the key apparel manufacturing contracts from the worlds' largest retailers.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	31 December 2017	31 December 2016
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	2,604	8,624
Short-term deposits		132	81
Trade receivables	5	3,203	3,972
Other receivables		2,981	2,288
Inventories	6	6,709	5,337
		15,629	20,302
NON-CURRENT ASSETS:			
Investment in a joint venture		-	1,580
Long-term receivables		28	-
Property, plant and equipment		8,721	668
Goodwill		5,775	5,689
Other intangible assets		2,722	3,873
Deferred taxes		181	340
		17,427	12,150
		33,056	32,452

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	31 December 2017	31 December 2016
		U.S. dollars in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit		2,294	-
Trade payables		4,933	3,848
Other payables	7	4,073	4,618
		11,300	8,466
NON-CURRENT LIABILITIES:			
Employee benefit liabilities, net		281	210
Payable for acquisition of subsidiary		2,154	2,594
Lease liabilities		580	-
Deferred taxes		1,128	-
		4,143	2,804
EQUITY:			
Share capital		3,284	3,284
Share premium		86,306	86,306
Capital reserve for share-based payment transactions		1,757	1,580
Capital reserve for transactions with shareholders		10,165	10,165
Adjustments arising from translation of foreign operations		(9,624)	(8,895)
Accumulated deficit		(76,221)	(73,204)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		15,667	19,236
Non-controlling interests		1,946	1,946
Total equity		17,613	21,182
		33,056	32,452

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND

OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2017	**2016**
		U.S. dollars in thousands	
Revenues from sales		51,091	64,071
Cost of sales		43,450	53,541
Gross profit		7,641	10,530
Selling and marketing expenses		5,026	6,172
General and administrative expenses		3,299	3,050
Development costs		847	1,652
Other income		(1,223)	-
Other expenses		291	2
Operating loss		(599)	(346)
Finance income		10	13,305
Finance expenses		(2,132)	(2,676)
Company's share of losses of a joint venture		(184)	(414)
Income (loss) before taxes on income		(2,905)	9,869
Tax benefit (expenses)		(123)	32
Net income (loss) for the year (all attributable to equity holders of the Company)		(3,028)	9,901

Other comprehensive income:

Items to be reclassified or that are reclassified to profit or loss when specific conditions are met:		
Adjustment arising from translation of foreign operation	(729)	-
Items not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gain on defined benefit plans	11	47
Total other comprehensive income (loss)	(718)	47
Total comprehensive income (loss)	(3,746)	9,948
Net income (loss) attributable to equity holders of the Company	(3,028)	9,901
Total comprehensive income (loss) attributable to equity holders of the Company	(3,746)	9,948

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND

OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017	2016
		U.S. dollars (except share and per share data)	
Earnings (loss) per share attributable to equity holders of the Company (in dollars)	10		
Basic and diluted earnings (loss) per share		(0.01)	0.11
Weighted average number of Ordinary shares for basic and diluted earnings (loss) per share (in thousands)		310,543	90,231

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with shareholders	Adjustments arising from translation of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands								
Balance at 1 January 2016	576	78,342	1,438	10,165	(8,895)	(83,152)	(1,526)	1,946	420
Profit for the year	-	-	-	-	-	9,901	9,901	-	9,901
Other comprehensive income: Remeasurement gain on defined benefit plans	-	-	-	-	-	47	47	-	47
Total comprehensive income	-	-	-	-	-	9,948	9,948	-	9,948
Exercise of options	*)	38	(35)	-	-	-	3	-	3
Cost of share-based payment	-	-	177	-	-	-	177	-	177
Issue of share capital (net of issue expenses of 0.56$ million)	2,494	7,256	-	-	-	-	9,750	-	9,750
Conversion of loans from Banks into shares	214	670	-	-	-	-	884	-	884
Balance at 31 December 2016	3,284	86,306	1,580	10,165	(8,895)	(73,204)	19,236	1,946	21,182

Loss for the year	-	-	-	-	-	(3,028)	(3,028)	-	(3,028)
Other comprehensive income:									
Adjustment arising from translation of foreign operation	-	-	-	-	(729)	-	(729)	-	(729)
Remeasurement gain on defined benefit plans	-	-	-	-	-	11	11	-	11
Total comprehensive income	-	-	-	-	(729)	(3,017)	(3,746)	-	(3,746)
Options forfeited	-	16	(16)	-	-	-	-	-	-
Cost of share-based payment	-	-	177	-	-	-	177	-	177
Balance at 31 December 2017	3,284	86,322	1,741	10,165	(9,624)	(76,221)	15,667	1,946	17,613

*) Less than $1 thousands.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2017	2016
	U.S. dollars in thousands	
Cash flows from operating activities:		
Net income (loss)	(3,028)	9,901
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain from remeasurement of previous investment in joint venture	(1,223)	-
Company's share of losses of a joint venture	184	414
Depreciation and amortization	1,926	1,738
Deferred taxes, net	173	(36)
Change in employee benefit liabilities	86	(182)
Cost of share-based payment	177	177
Loss from sale of property, plant and equipment and other assets	121	20
Finance expenses, net	1,515	1,430
Income tax benefit, net	(50)	4
Gain on extinguishment of debt	-	(13,305)
Exchange differences on intercompany current account	157	-
	3,066	(9,740)
Changes in asset and liability items:		
Decrease in trade receivables	799	171
Increase in other receivables	(710)	(319)
Decrease (increase) in inventories	(1,398)	2,989
Increase (decrease) in trade payables	915	(1,568)
Decrease in other payables	(1,193)	(516)

	(1,587)	757
Cash paid during the year for:		
Interest paid	(1,090)	(978)
Interest received	8	-
Taxes paid	(298)	-
Taxes received	5	-
	(1,375)	(978)
Net cash used in operating activities	(2,924)	(60)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2017	2016
	U.S. dollars in thousands	
Cash flows from investing activities:		
Acquisition of initially consolidated subsidiary (a)	(1,811)	-
Investment in joint venture	(1,169)	-
Purchase of property, plant and equipment	(892)	(375)
Addition to intangible assets	-	(43)
Collection of finance lease receivable	83	-
Purchase of short-term investments, net	(51)	(5)
Release of pledged bank deposits	-	387
Net cash used in investing activities	(3,840)	(36)
Cash flows from financing activities:		
Issue of shares, net of expenses	-	9,750
Repayment of lease liabilities	(720)	-
Receipt of short-term credit from others	2,280	-
Exercise of options	-	3
Repayment of long-term liabilities from banks	-	(6,988)
Short-term advance from (repayment to) joint venture	-	(708)
Payment of liability for acquisition of subsidiary	(800)	(800)
Net cash provided by financing activities	760	1,257
Exchange differences on balances of cash and cash equivalents of foreign operation	(16)	-
Increase (decrease) in cash and cash equivalents	(6,020)	1,161

Cash and cash equivalents at the beginning of the year	8,624	7,463
Cash and cash equivalents at the end of the year	2,604	8,624

a) Acquisition of initially consolidated subsidiary

The subsidiary's assets and liabilities at date of acquisition:

Working capital (excluding cash and cash equivalents)	(1,894)	-
Property, plant and equipment	7,472	-
Deferred taxes	(1,295)	-
Gain from remeasurement of investment in company previously accounted for at equity	(1,223)	-
Goodwill	100	-
Investment in company previously accounted for at equity	(1,349)	-
	1,811	-

b) Significant non-cash transactions:

Waiver of receivable from partner in joint venture (see Note 6 to the annual financial statements)	672	-
Issuance of shares upon extinguishment of loans from banks	-	884

NOTE 1:- GENERAL

a. Company description:

Bagir Group Ltd. ("the Company") is registered in Israel. The Company and its subsidiaries ("the Group") specialize in the manufacturing and marketing of men's and women's tailored fashion. The Company's Headquarter is located in Kiryat Gat, Israel. The Group's products are manufactured by subsidiaries in Egypt and Ethiopia and subcontractors. The Group's products are marketed in U.S, Europe (mainly in the UK) and in other countries. As for additional details, see Note 30 to the annual financial statements.

b. In April 2014 the Company completed an initial public offering ("IPO") and its shares were admitted to trading on the London Stock Exchange's Alternative Investment Market (AIM).

c. In January 2017, the Company signed an agreement to acquire the remaining 50% of a joint venture. The acquisition was conditional on the fulfillment of certain procedural matters. In June 2017, the Company completed the acquisition for a total consideration of $2.6 million, comprised of $1.9 million in cash and $0.7 million for waiver of receivable from the partner in the joint venture. See Note 6 to the annual financial statements.

d. In November 2017, the Company signed a strategic Share Purchase Agreement with a global textile manufacturer (the Investor). According to the agreement, the Investor has committed to make an investment of $16.5 million in the Company in consideration for the issuance by the Company of Ordinary shares that will represent 54% (fully diluted- 51%) of the Company’s enlarged issued share capital. For further details, see Note 24 to the annual financial statements.

NOTE 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 financial statements:

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU").

The financial statements have been prepared on a cost basis, other than employee benefits liability and plan assets.

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

The Board of Directors has considered the principal risks and uncertainties of the business, the trading forecasts prepared by management covering a twelve month period following the approval of the financial statements and the resources available to meet the Group's obligations for the aforementioned period. After taking all of the above factors into consideration, the Board of Directors has concluded that it is appropriate to apply the going concern basis of accounting in preparing the financial statements.

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 transactions between the Company and the subsidiaries are eliminated in full in the consolidated financial statements.

Non-controlling interests in a subsidiary represent the equity in a subsidiary 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. Gains or losses and any component 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.

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 carried to the statement of profit or loss as incurred.

In a business combination achieved in stages, equity interests in the acquiree that had been held by the acquirer prior to obtaining control are measured at the acquisition date fair value while recognizing a gain or loss resulting from the revaluation of the prior investment on the date of achieving control.

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.

d. Investment in a joint venture:

Joint arrangements are arrangements of which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. In joint ventures the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
The Group's investment in a joint venture is accounted for using the equity method. Under the equity method, the investment in the joint venture is presented at cost with the addition of post-acquisition changes in the Group's share of net assets, including other comprehensive income of the joint venture. Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

Goodwill relating to the acquisition of a joint venture is presented as part of the investment in the joint venture, measured at cost and not systematically amortized. Goodwill is evaluated for impairment as part of the investment in the joint venture as a whole.

The financial statements of the Company and of the joint venture are prepared as of the same dates and periods. The accounting policies applied in the financial statements of the joint venture are uniform and consistent with the policies applied the financial statements of the Group.

e. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The financial statements are presented in U.S. dollars, the Company's functional currency.

The functional currency is the currency that best reflects the economic environment in which an entity operates and conducts its transactions, it is separately determined for each Group entity and is used to measure its financial position and operating results.

Assets and liabilities are translated at the closing rate at the end of each reporting period. Goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities on the date of acquisition of the foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate at the end of each reporting period. Profit or loss items are translated at average exchange rates for all the relevant periods. All resulting translation differences are recognized as a separate component of other comprehensive income (loss) in equity under "adjustments arising from translation of foreign operations".

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and are accounted for as part of the investment and, accordingly, the exchange differences from these loans (net of their tax effect) are recognized as other comprehensive income (loss) under "adjustments arising from translation of foreign operations".

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the cumulative amount recognized in other comprehensive income is reattributed to non-controlling interests.

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional 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 differences are recognized in profit or loss. 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.

3. Below are data about the exchange rates of significant currencies in which the Group transacts in relation to the dollar:

As of	Representative exchange rate £ 1	NIS 1
	U.S. dollars	
31 December 2017	1.35	0.28
31 December 2016	1.229	0.26
Change	**%**	**%**
Year ended 31 December 2017	10	0.07
Year ended 31 December 2016	(17.0)	1.5

f. 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 investment 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.

g. Short-term deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit.

h. 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.

The Company did not recognize an allowance in respect of groups of trade receivables that are collectively assessed for impairment due to immateriality.

Impaired receivables are derecognized when they are assessed as uncollectible.

i. Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs.

The Company periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories.

Cost of inventories is determined as follows:

Raw materials and auxiliary materials- using the weighted average method.

Finished products and work in progress - materials as above and other costs on the basis of average costs including processing expenses.

Parts - using the weighted average method.

j. Financial instruments:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus direct transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification as follows:

a) Financial assets at fair value through profit or loss:

This category includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

b) Loans and receivables:

Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost less direct transaction costs using the effective interest method and less any impairment losses. Short-term receivables are measured based on their terms, normally at face value.

2. Financial liabilities:

Liabilities are initially recognized at fair value less, in the case of financial liability not measured subsequently at fair value through profit or loss, transaction costs. Loans and other liabilities at amortized cost are presented net of direct transaction costs.

After initial recognition, the accounting treatment of financial liabilities is based on their classification as follows:

Financial liabilities at amortized cost:

After initial recognition, loans are measured based on their terms at amortized cost less direct transaction costs using the effective interest method.

3. Derecognition of financial instruments:

a) Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A transaction involving factoring of accounts receivable and credit card vouchers is derecognized when the abovementioned conditions are met.

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is

recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

b) Financial liabilities:

A financial liability is derecognized 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.

When an existing financial liability is exchanged with another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as an extinguishment of the original liability and the recognition of a new liability. The difference between the carrying amounts of the above liabilities is recognized in profit or loss.

If the exchange or modification is not substantial, it is accounted for as a change in the terms of the original liability and no gain or loss is recognized on the exchange. When evaluating whether the change in the terms of an existing liability is substantial, the Company takes into account both quantitative and qualitative considerations.

4. Impairment of financial assets:

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows.

Financial assets carried at amortized cost:

Objective evidence of impairment exists when one or more events that have occurred after the initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted

at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

5. Extinguishing financial liabilities with equity instruments:

Equity instruments issued to replace a debt are measured at the fair value of the equity instruments issued if their fair value can be reliably measured. If their fair value cannot be reliably measured, the equity instruments are measured based on the fair value of the financial liability extinguished on the date of extinguishment. The difference between the carrying amount of the financial liability extinguished and the fair value of the equity instruments issued is recognized in profit or loss.

k. Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the 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.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.

Level 3 - Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

l. Leases:

The Group has elected to early apply IFRS 16, "Leases", in 2017. In accordance with the transition provisions in IFRS 16, the new Standard has been adopted using a modified retrospective approach, with the cumulative effect of initially applying IFRS 16 recognized on 1 January 2017, and comparative data for 2016 not being restated. See Note 2v below for further details on the impact of the change in accounting policy.

(i) Accounting policy applied until 31 December 2016:

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease in accordance with the following principles as set out in IAS 17.

Operating leases - the Group as lessee:

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

(ii) Accounting policy applied from 1 January 2017:

Leases are recognized as a right-of-use asset and corresponding liability at the date of which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance expense The finance expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives,
- variable lease payment that are based on an index or a rate,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date,
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less

m. Property, plant and equipment:

Items of property, plant and equipment are measured at cost, including direct acquisition costs, less accumulated depreciation, accumulated impairment losses and excluding day-to-day servicing expenses. Parts of items of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately using the component method.

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

	%	Mainly %
Machinery and equipment	3.5 - 12	10
Motor vehicles	15 - 20	15
Buildings	3.5	3.5
Office furniture and equipment	6 - 33	7
Right of use leased assets and leasehold improvements	over the lease term (see below)	

Right of use leased assets and 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 asset.

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 derecognized. 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

n. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost including direct acquisition costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred.

Intangible assets with a finite useful life are amortized over their useful life and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization 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 amortization of intangible assets with finite useful lives is recognized in profit or loss.

Development expenditures:

Development expenditures incurred on a development project are recognized as an intangible asset if the Company can demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

The asset is measured at cost less any accumulated amortization and any accumulated impairment losses. Testing of impairment is performed annually over the period of the development project. Amortization of the asset begins when development is complete and the asset is available for use.

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, stand-alone software that adds functionality to the hardware is classified as an intangible asset.

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

	Years
Customer relationships	10
Capitalization of development costs - novel products	3
Controlling rights acquired (see Note 5 to the annual financial statements)	7
Software	10

o. 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 to sell and value in use. In measuring value in use, the expected 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 recognized 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 recognized. 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 amortization) had no impairment loss been recognized for the asset in prior years, and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

o. Impairment of non-financial assets: (Cont.)

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

1. Goodwill:

For impairment testing, goodwill acquired in a business combination is allocated on the acquisition date to each of the Group's cash generating units that are expected to benefit from the business combination.

The Company reviews goodwill for impairment once a year as of December 31 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 recognized 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 recognized for goodwill cannot be reversed in subsequent periods.

2. Investment in a joint venture:

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the investment in a joint venture. The Company determines at each reporting date whether there is objective evidence that the carrying amount of the investment in the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the joint venture.

3. Intangible assets - development costs capitalized during the development period:

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

p. Taxes on income:

The tax results of current or deferred taxes are recognized in profit or loss, except to the extent that they refer to items which are recognized in other comprehensive income or equity.

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 reporting period as well as adjustments required in connection with the tax liability payable 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 tax balances are measured at the tax rate that is expected to apply when the taxes are reversed in profit or loss or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Carry-forward operating loss and deductible temporary differences for which deferred tax assets had not been recognized are reviewed at the end of each reporting period and a respective deferred tax asset is recognized to the extent that their utilization is probable.

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that would trigger an additional tax liability.

Deferred taxes are offset 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.

q. Share-based payment transactions:

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

Equity-settled transactions:

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable pricing model, additional details are given in Note 28. In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognized 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.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

If the Company modifies the conditions on which equity-instruments were granted, an additional expense is recognized beyond the original computed expense. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee at the modification date.

r Employee benefits liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized 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 normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans for part of the Group's employees overseas and for part of the Group's employees in Israel pursuant to section 14 to the Severance Pay Law under which the Group 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 recognized as an expense when contributed concurrently with performance of the employee's services and no additional provision is required in the financial statements.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and expected salary increases based on the estimated timing of payment. The

amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

In respect of its severance pay obligation to certain of its employees, the Company makes current deposits in pension funds and insurance companies ("the plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets.

Remeasurements comprising of actuarial gains and losses and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability) are recognized in other comprehensive income in the period in which they occur.

s. Revenue recognition:

In conjunction with the early adoption of IFRS 16 (see Note 2l above), the Group has elected to early apply IFRS 15, "Revenue from Contracts with Customers", in 2017. The adoption of IFRS 15 had no effect on the consolidated financial statements.

Revenue from contracts with customers is recognized in profit or loss when the control over the asset or service is transferred to the customer. Revenue is measured and recognized at the fair value of the consideration that is expected to be received based on the contract terms, taking into consideration any discounts and significant financing component. Revenue is recognized in profit or loss to the extent that it is probable that the economic benefits associated with the contract will flow to the Company and that the costs incurred or to be incurred in respect of the contract can be measured reliably.

Following are the specific recognition criteria for the Group's revenues which must be met before revenue is recognized:

Revenues from the sale of goods:

Revenue from the sale of goods is recognized in profit or loss when the ownership of the goods is passed to the buyer, normally when the goods are delivered to the buyer.

t. Provisions:

A provision in accordance with IAS 37 is recognized 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. If the Group expects part or all of the expense to be reimbursed to the Company, such as in an insurance contract, the reimbursement is recognized as a separate asset only when it is virtually certain that it will be received by the Company. The expense is recognized in profit or loss net of the reimbursed amount.

u. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income (loss) attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. 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. 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.

v. Changes in accounting policies:

(i) As described in Note 2l above, the Group has adopted IFRS 16, "Leases", retrospectively from 1 January 2017, as permitted by IFRS 16. Comparative data for 2016 have not been restated.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which previously were classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates as of 1 January 2017. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2017 was 10.4%.

As a result of the adoption of IFRS 16 as of 1 January 2017, property, plant and equipment and lease liabilities increased by US $ 1.6 million with no net effect on equity.

(ii) As described in Note 2t above, the Group has adopted IFRS 15, "Revenue from Contracts with Customers" retrospectively from 1 January 2017 as permitted

by IFRS 16. The adoption of IFRS 15 had no effect on the consolidated financial statements.

NOTE 3:- INVESTMENT IN A SUBSIDIARY

The Company, through a wholly owned subsidiary, holds an investment in a company in Egypt that was jointly owned and controlled with another Egyptian company ("the Egyptian partner"). On 1 January 2009, the Company signed an agreement with the Egyptian partner whereby the control and management will pass to the Company for a period of six and half years starting 1 January 2009 in consideration of the payment of 4% of the sales revenues of the Egyptian company to the Egyptian partner but not more than $ 900 thousand a year and not less than $ 800 thousand a year for 2009 and 2010, and a fixed amount of $ 1 million for each of the years 2011 to 2015. Over the term of the agreement, the control and management of the Egyptian company will be in the hands of the Company and it shall bear all costs and entitled to all profits relating to the Egyptian company. As a result of this agreement, since 1 January 2009, the Company fully consolidates the financial statements of the Egyptian company.

On 1 July 2015, the Company signed an extension of the agreement with the Egyptian partner whereby the Company will continue to control and manage the subsidiary for an additional period of 7 years starting 1 July 2015, in consideration for a fixed annual payment of $ 800 thousand. Accordingly, the Company will continue to fully consolidate the financial statements of the Egyptian subsidiary. At that date, the Company's management estimated that the fair value of the assets of the Egyptian company approximated their carrying amount. The Company recognized a liability in the amount of the present value of the future fixed annual payments discounted at rate of 15.7 % and, simultaneously, recognized an intangible asset ("controlling rights") in the amount of $ $3,446 thousand that is amortized over the term of the agreement (7 years) (see also Note 20).

NOTE 4:- CASH AND CASH EQUIVALENTS

	31 December	
	2017	**2016**
	U.S. dollars in thousands	
Cash in banks:		
In U.S. dollars	2,387	8,410
In Sterling	8	97
In other currencies	209	117

	2,604	8,624

NOTE 5:- TRADE RECEIVABLES

	31 December	
	2017	2016
	U.S. dollars in thousands	
Open accounts	3,227	3,977
Less - allowance for doubtful accounts	(24)	(5)
	3,203	3,972

Impaired debts are accounted for through recording an allowance for doubtful accounts.

The aging analysis of past due but not impaired trade receivables is as follows:

	Neither past due (nor impaired)	Past due but not impaired				Total
		< 30 days	30 - 60 days	60 - 90 days	Over 90 days	
	U.S. dollars in thousands					
31 December 2017	3,185	-	7	1	10	3,203
31 December 2016	3,024	713	228	-	7	3,972

NOTE 6:- INVENTORIES

	31 December	
	2017	2016
	U.S. dollars in thousands	
Finished products	1,438	728
Work in progress	584	671
Raw and auxiliary materials	2,752	1,961
Parts	239	198
Inventories in transit	1,696	1,779

	6,709	5,337

Write down of inventories recorded in cost of sales totaled $ 451 thousand (2016- $ 487 thousand).

NOTE 7:- TRADE PAYABLES

	31 December	
	2017	2016
	U.S. dollars in thousands	
Open accounts:		
In U.S. dollars	3,999	3,458
In GBP	149	135
In NIS	204	254
In other currency	581	1
	4,933	3,848

NOTE 8:- SHARE-BASED PAYMENT

a. The expense recognized in the financial statements for share-based payments is shown in the following table:

	Year ended 31 December	
	2017	2016
	U.S. dollars in thousands	
Equity-settled share-based payment plans	177	177

b. Share-based payment transactions granted to the Chairman, CEO and employees of the subsidiaries in 2013:

In September 2013, the Company's Board of directors resolved to reserve for employees of the Company and subsidiaries, up to 350,000 options.

The options are to be granted at no consideration. Each option is exercisable into one Ordinary share of the Company (subject to adjustments) at an exercise price of $ 1.60 under a cashless exercise arrangement.

On 30 November 2013, 322,250 options were granted for employees of the Company and subsidiaries. The options vested in four equal tranches as follows:

The first tranche vested on the grant date, and the second, third and fourth tranches vested on 31 December 2013, 2014, 2015, respectively. The options expire 10 years from the date of grant.

The fair value of the options amounted to $ 80 thousand at the grant date.

The options were granted through a trustee arrangement pursuant to section 102 of the Income Tax Ordinance.

c. In March 2014, the Board of Directors resolved to increase the number of options available for grants to employees of the Group from 350,000 options to 875,000 options. The options are to be granted for no consideration. Each option is exercisable into one Ordinary share of the Company (subject to adjustments) under the cashless method against the payment of the exercise price of the par value of each share. On that date, the Company granted an additional 499,700 options to the participants who were already granted options under the Share Option Plan. Each participant was granted such number of options, pari passu, to the number of options granted to such participant in November 2013. Half of the options vested immediately on the grant date, 25% vested on 31 December 2014 and 25% vested on 31 December 2015. The options expire 10 years from the date of grant. The fair value of the options granted was immaterial.

The options were granted through a trustee arrangement pursuant to section 102 of the Income Tax Ordinance

d. In January 2016, the Company granted options to acquire 2,700,000 Ordinary shares to the Company's CEO and to the Company's CFO (1,350,000 options each). The Options have an exercise price of GBP 0.035.
The options expire 10 years from the date of grant.
The options granted shall vest as follow: 1,000,000 options will vest on 31 October 2016,
another 1,000,000 options will vest on 31 October 2017 and the balance will vest on 31 October 2018.
The fair value of the options amounted to $102 thousand at the date of the grant

e. In May 2016, the Company's Board of Directors granted 1,089,750 options to the Company's employees.
The options were granted at no consideration. Each option is exercisable into one Ordinary share of the Company (subject to adjustments) at an exercise price of GBP 0.0375 under cashless exercise arrangement.
The options will vest in 3 equal tranches on May 2017, 2018 and 2019, respectively.
The options expire 10 years from the date of the grant.
The fair value of the options amounted to $29 thousand at the date of the grant.

f. In October 2016, the Board of Directors granted 6,705,362 options to the Company's CEO, and 5,238,874 options to the Company's CFO and another 17,803,050 options to several key employees on the following terms:

Vesting of the options is to be based on certain stretch targets as follows:

- 25 per cent. On grant for the CEO and CFO and 25 per cent. after 0.5-1 year for the key employees
- 25 per cent. Once the Company's share price is 8 pence or above.
- 25 per cent. Once the Company's share price is 10 pence or above.
- 25 per cent. Once the Company's share price is 12 pence or above.

The options will be exercisable at an exercise price of GBP 0.035 and with a scheme length of 5 years.

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

Dividend yield (%)	0
Expected volatility of the share prices (%)	60
Risk-free interest rate (%)	0.7
Expected life of share options (years)	5
Share price (GBP)	0.035

Based on the above inputs, the fair value of the options amounted to $559 thousands at the date of the grant.

The expected life of the share options is based on historical data and is not necessarily indicative of the exercise patterns of share options that may occur in the future.

The expected volatility of the share prices is based on the average volatility of the share price of the Company (50%) and average volatility of companies with similar activity (50%). This reflects the assumption that the historical volatility of the share prices is reasonably indicative of expected future trends.

g. In May, 2017, the Company's Board of Directors granted 700,000 options to two employees (350,000 options each) on the following terms:

Vesting of the options is to be based on certain stretch targets as follow:

- 25 per cent. After 1 year.
- 25 per cent. Once the Company's share price is 8 pence or above.
- 25 per cent. Once the Company's share price is 10 pence or above.

- 25 per cent. Once the Company's share price is 12 pence or above.

The options will be exercisable at an exercise price of GBP 0.0475 and with a scheme length of 5 years.
The fair value of the options amounted to $19 thousand at the date of the grant.

h. The total number of options under the Company's existing plan are 30,788,825. According to the terms of the share options granted, the vesting of 30,362,075 options will be accelerated and become immediately exercisable upon takeover event or change of control of the Company.

i. Movement during the year:

	2017		2016	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
		USD		**USD**
Share options outstanding at beginning of year	33,963,786	0.05	667,863	0.78
Share options granted during the year	700,000	0.04	33,537,036	0.043
Share options forfeited during the year	(3,874,961)	0.05	(189,750)	0.78
Share options exercised during the year	-	-	(51,363)	0.78
Share options outstanding at end of year	30,788,825	0.05	33,963,786	0.05
Share options exercisable at end of year	6,592,974	0.045	4,653,922	0.05

(1) The weighted average remaining contractual life for the share options outstanding as of 31 December 2017 is 8.65 years (2016- 7.1years).

(1) The range of exercise prices for share options outstanding as of 31 December 2017 USD 0.01 for 294,250 options, USD 1.8 for 132,500 options, USD 0.048 for 29,662,075 options. and 0.04 for 700,000 options.

NOTE 9:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances:

As of 31 December 2017:

	Key management personnel
	U.S. dollars in thousands
Other payables	360

As of 31 December 2016:

	Joint Venture	Key management personnel
	U.S. dollars in thousands	
Other receivables	61	-
Other payables	18	538

b. Benefits to key management personnel :*)

	Year ended 31 December	
	2017	2016
	U.S. dollars in thousands	
Short-term benefits	1,329	1,041
Post-employment benefits	64	46
Share-based payment	98	147
	1,491	1,234

*) Includes members of the Board of Directors.

NOTE 10:- NET EARNINGS (LOSS) PER SHARE

Details of the number of shares and loss used in the computation of basic and diluted loss per share:

Year ended 31 December			
2017		2016	
Weighted number of shares *)	Loss from operations	Weighted number of shares *)	Net income from operations
In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands
310,543	(3,028)	90,231	9,901

*) The data related to the computation of diluted profit (loss) per share (options and warrants) have not been included as they are antidilutive.

NOTE 11:- ADDITIONAL INFORMATION ON OPERATIONS

a. General:

As more fully described in Note 14b, due to a change in the structure of the Group's internal organization that culminated in the second half of 2017, the Group presently has only one operating segment - the manufacturing and marketing of men and women's tailored fashion (mainly men's). Comparative data for 2016 has been revised accordingly.

b. Revenues by geographical area:

	Year ended 31 December	
	2017	2016
	U.S. dollars in thousands	
U.S.	39,571	45,064
Europe (mainly UK)	10,450	17,000
Other	1,070	2,007
Total	51,091	64,071

c. The carrying amounts of non- current assets (property, plant and equipment and intangible assets) in the Company's country of domicile (Israel) and in foreign countries based on the location of the assets, are as follows:

	31 December	
	2017	2016
	U.S. dollars in thousands	
Israel	1,855	2,532
UK	1,032	1,018
U.S.	6,312	6,183
Ethiopia	6,899	-
Other	1,222	497
	17,320	10,230