

15 September 2016

Bagir Group Ltd.
("Bagir" or the "Company")

Interim results
for the six months ended 30 June 2016

Bagir (AIM: BAGR), a designer, creator and provider of innovative tailoring, is pleased to announce its results for the six months ended 30 June 2016.

H1 trading highlights

- Positive EBITDA* of \$0.8m in the first half of 2016 – demonstrating the successful execution of the Recovery Plan with the reversal of a negative EBITDA* of \$(0.4) m for H1 2015 and \$(4.3)m for FY2015
- Breakeven at the operating level for the first half of 2016 – turning around the operating loss of \$(1.9)m for H1 2015 and \$(8.7)m for FY2015
- Revenue of \$33.5m for H1 2016 which is in line with Directors' expectations in both the US and the UK markets. The reduction from the previous period (H1 2015 \$45.5m) is mainly attributable to the reduction in sales from M&S and to shifting to sales net of fabric with a US customer
- Gross margin has held up strongly with H1 2016 at 17.8% compared with 14.5% in H1 2015 - in spite of the reduction in revenues
- Reduction of overhead expenses by c.30% compared with 2015
- Cash and cash equivalents at 30 June 2016 of \$4.0m (H1 2015 and 31 December 2015 \$13.3m and \$7.5m respectively) - the reduction in cash is as a result of prior year losses and restructuring costs

* '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.

Post period end

- On 25 July 2016 the Company announced that as part of the Company's ongoing Recovery Plan it had reached an agreement with its lenders, Bank Leumi and Discount Bank (the "Lenders"), to clear all outstanding bank debt (approximately \$21 million) subject to the satisfaction of certain conditions
- At the same time, the Company also announced plans to undertake a private placement to raise approximately \$8.5 million (net of expenses), the proceeds of which will be used to meet the cash repayment condition with the Lenders (\$6.3m) with the balance being used for general working capital (the "Private Placement"). Further announcements on this will be made at the appropriate time.

Current trading and outlook

- Current trading is in line with the Directors' expectations
- The Recovery Plan has already borne fruit and will continue to be implemented throughout the remainder 2016, albeit that the majority of costs savings have already made
- The Company has a clear strategy for re-establishing the business and its primary focus going forward is on the following areas:
 - expanding its current customer base so as to reduce reliance on any one individual customer by securing high volume sales orders from the larger end of the US and UK retail market supported by a new pricing model
 - reinvesting in product development and innovation to support the current suite of strong products;
 - ensure optimum operational efficiency in line with the new shape of the Company; and
 - expanding operations at the Company's chosen production sites in Egypt, Vietnam and Ethiopia maximising the potential for customs/tariff free trade routes. The Ethiopian factory is expected to become an increasingly important factor in the coming months and years.

Eran Itzhak, CEO of Bagir, said:

"We have achieved a significant turnaround in the first six months of 2016 and we can now begin to show how the various elements of our Recovery Plan are coming together to create a new base from which we can grow

the business. The agreement we have reached with our Lenders is a key element and, if we are successful in satisfying the conditions, will transform our balance sheet. From this new position of strength we will then be able to implement our strategies around new customer acquisition, innovation and maintaining a highly efficient operational base. This is an exciting time to be involved with Bagir and we look forward to the future with confidence.”

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Chairman's statement**Introduction**

The Company has been in recovery mode since May 2014 when it announced the loss of a substantial proportion of revenue from its previous largest customer. Under the Recovery Plan the Company has sought to restructure the business to reflect the decrease in volumes and establish a new base from which to return the business to growth.

It is very pleasing therefore to be able to report on this six-month trading period which clearly shows the benefit of the actions the Company has taken to restore the business. In the last 18 months, the Company has reduced the cost base of the business by approximately 30% and has identified further areas for potential savings. These actions have been a significant driver in the Company reversing the losses at EBITDA level last year and recording a positive EBITDA performance for the first six months of 2016. This, together with improving gross profit margins, completing the restructuring of the manufacturing base and continuing to attract new customers, represents a significant achievement.

It is no secret that the Company's current level of borrowings is disproportionate to the size of the reduced business and is preventing the Company from investing in growing the business. The agreement which we announced post-period end with the Company's Lenders, if completed, will be transformational for the business resulting in both a significantly stronger balance sheet and reduced financial expenses.

Agreement with Lenders

Under the agreement the Lenders have agreed to accept a partial repayment and then to write-off the balance of all bank loans amounting to approximately \$21 million and associated obligations, subject to the Company fulfilling the following conditions to them pro rata before 31 December 2016:

- a cash payment of \$6.3 million ("Cash Payment"). The Company proposes to fund this cash payment through the Private Placement; and
- the issued and allotment to the Lenders of 8.33% of the Company's total issued share capital as enlarged by the Private Placement.

On receipt of the Cash Payment and issue of new ordinary shares to the banks, each of the banks shall write-off the outstanding balance of the obligations and liabilities of the Company to the banks and any liens, mortgages, and guarantees created in favour of the banks, will also be cancelled. Additionally, if the Company generates annual EBITDA above \$6.5 million between 2016 and 2024 then a contingent payment will be due of 50% of the excess of annual EBITDA generated above \$6.5 million up to a maximum payment in aggregate of \$8.0 million.

Proposed Private Placement

The Company intends to raise approximately \$8.5 million (after expenses) through the Private Placement. Of the net proceeds from the Private Placement \$6.3 million will make the Cash Payment to the Lenders with the balance being used for general working capital to support the business operations. Further announcements on this will be made at the appropriate time.

Financial review

Revenue for the six months ended 30 June 2016 has been in line with management expectations in both the US and the UK markets and amounted to \$33.5m compared with \$45.0m for the first half of 2015. The reduction in sales is attributed mainly to the reduction in sales to the Company's former largest customer as announced in 2014 (from approximately \$7m in H1 2015 to approximately \$2m in H1 2016). At the same time, some sales were made net of fabric to a large US customer; although this did not impact on the gross profit (the fabric amount that should be added to H1 2016 sales for comparison with H1 2015 is approximately \$3m). The cessation of brand activity as part of the Recovery Plan also contributed to the reduction in sales. However, it is important to note that notwithstanding the overall reduction, the Company did successfully grow revenues elsewhere through additional sales to existing and new retail customers.

The gross margin for the six months ended 30 June 2016 was 17.8% compared with 14.5% for the first half of 2015. This increase is primarily attributed to the restructuring in production sites (including subcontractor costs), the reduction in overall overhead costs and the reduction in amortisation costs due to impairment of intangible assets in 2015. It also includes non-recurring government subsidy of approximately \$0.5m from previous years.

Operating expenses for the first half of 2016 have been reduced substantially compared with the same period last year which includes the reduction of overhead costs by approximately 30% compared with 2015.

Selling and marketing expenses decreased to \$3.6m in H1 2016 (H1 2015: \$5.0m), development costs decreased to \$1.0m in H1 2016 (H1 2015: \$1.2m) and general and administrative expenses decreased to \$1.4m in H1 2016 (H1 2015: \$2.2m).

The cost reduction included significant reduction in manpower, rent and related costs, production samples cost savings, travel expenses and other overhead costs.

As a result of the above achievements and the successful execution of the Recovery Plan, the Company turned a negative EBITDA of \$(0.4)m for the first half of 2015 and \$(4.3)m for FY2015, into a positive EBITDA of \$0.8m in the first half of 2016.

The operating income (loss) turned from \$(1.9) for the first half of 2015 and \$(8.7)m for FY2015, to breakeven operating income of \$0.0m for the first half of 2016.

Cash and cash equivalents at 30 June 2016 were \$4.0m (H1 2015 and 31 December 2015 \$13.3m and \$7.5m respectively) with the reduction in cash being as a result of prior year losses and restructuring costs.

Net debt at 30 June 2016 was \$17.0m (H1 2015 and 31 December 2015 were \$8.2m and \$13.8m respectively).

Operational review

The Company has a clearly defined strategy and is successfully executing it. In the first six months of 2016, the trading performance shows the benefits of the actions the management have taken with the improvement in gross margin, the continuing reduction in costs, launch of new products and the successful acquisition of new customers.

The focus on core manufacturing sites in Vietnam, Egypt and Ethiopia has streamlined the Company's manufacturing base whilst also improving it. The changes made have created strong competitive advantages as a result of their combined duty free export status for sales to both the EU and US, highly competitive production costs and local governmental support for the textile industry. Good progress has been made in Vietnam with the agreement with a new joint venture partner and in Ethiopia production for export has already commenced.

In 2015 the Company has reduced the overall cost base by 30%, a significant achievement, reducing costs from \$13.5m to an annual run rate of \$9.5m at the outset of 2016. The reductions have come from across the business and the management team has identified further areas for cost reduction whilst balancing this with ensuring that investment in key areas continues and/or increases.

Innovation and quality remains at the heart of all Company activity. Bagir is intensely proud of its track record created over the last 50 years of servicing leading western retailers. In 2015 the Company launched 4 new product lines which generated 5% of the Company's annual turnover and currently there are 8 new innovations in the pipeline, 6 of which are ready to market and the Company are planning to start actively presenting them to customers in Q4 2016.

New concepts and quality tailoring are critical to new customer acquisition. It reflects well on the Company that during these times of significant change and financial constraint for the business it has continued to win new business providing further confidence that once the Recovery Plan has been completed, new customer acquisition will accelerate. The focus is on expanding the Company's current customer base so as to reduce reliance on any one individual customer by securing high volume sales orders from the larger end of the US and UK retail market supported by a new pricing model.

Enhancing IT capabilities and expanding online sales functions is a significant area of focus. In the first six months of 2016 the Company deployed product lifecycle management (PLM) and enterprise resource planning

(ERP) systems across the business. As part of increasing online sales, the Company is targeting customers with leading online distribution platforms.

Outlook

The Company has achieved a significant turnaround in the first six months of 2016 and current trading since 30 June 2016 has been in line with Director's expectations. The agreement with the Lenders is a key element in the next chapter for the Company and, assuming that the various conditions are satisfied, will have a transformational effect on the business and its balance sheet, and will give us a solid foundation from which to grow the business in the years to come.

Importantly, customer responses to the changes made across the business, in particular in terms of manufacturing, new product innovation and other areas of operational efficiency, are being well received and together these factors underpin our confidence in the future of the business.

Tessa Laws
Chairman

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June		31 December
	Unaudited		Audited
	2016	2015	2015
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3,979	13,332	7,463
Short-term investments	475	512	464
Trade receivables	5,502	8,441	4,143
Other receivables	2,813	2,078	2,051
Inventories	5,130	8,794	8,326
	17,899	33,157	22,447
NON-CURRENT ASSETS:			
Investment in a joint venture	1,875	1,747	1,994
Property, plant and equipment	673	1,150	650
Goodwill	5,689	5,689	5,689
Other intangible assets	4,545	4,178	5,231
Deferred taxes	328	270	304
	13,110	13,034	13,868
	31,009	46,191	36,315

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	30 June		31 December
	Unaudited		Audited
	2016	2015	2015
U.S. dollars in thousands			
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	608	11,295	465
Trade payables	3,950	7,179	5,416
Other payables	3,983	8,086	5,831
	<u>8,541</u>	<u>26,560</u>	<u>11,712</u>
NON-CURRENT LIABILITIES:			
Loans from banks	20,397	10,192	20,772
Employee benefit liabilities	410	427	439
Obligation relating to lease agreement	-	156	-
Payable for acquisition of subsidiary	2,790	-	2,972
	<u>23,597</u>	<u>10,775</u>	<u>24,183</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	576	574	576
Share premium	78,380	78,322	78,342
Capital reserve for share-based payment transactions	1,441	1,449	1,438
Capital reserve for transactions with shareholders	10,165	10,165	10,165
Adjustments arising from translation of foreign operations	(8,895)	(8,895)	(8,895)
Accumulated deficit	(84,742)	(74,705)	(83,152)
	<u>(3,075)</u>	<u>6,910</u>	<u>(1,526)</u>
Non-controlling interests	1,946	1,946	1,946
<u>Total equity (deficiency)</u>	<u>(1,129)</u>	<u>8,856</u>	<u>420</u>
	<u><u>31,009</u></u>	<u><u>46,191</u></u>	<u><u>36,315</u></u>

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

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

	Six months ended		Year ended
	30 June		31 December
	Unaudited		Audited
	2016	2015	2015
U.S. dollars in thousands			
Revenues from sales	33,503	45,474	75,207
Cost of sales	27,543	38,860	67,870
Gross profit	5,960	6,614	7,337
Selling and marketing expenses	3,570	5,045	9,464
General and administrative expenses	1,449	2,249	4,315
Development costs	962	1,176	2,221
Other expenses, net	6	21	25
Operating loss	(27)	(1,877)	(8,688)
Finance income	-	167	17
Finance expenses	(1,468)	(1,424)	(2,975)
Company's share of losses of a joint venture	(119)	(18)	(49)
Loss before taxes on income	(1,614)	(3,152)	(11,695)
Tax benefit	24	21	44
Loss	(1,590)	(3,131)	(11,651)
Other comprehensive loss:			
<u>Items not to be reclassified to profit or loss in subsequent periods:</u>			
Remeasurment gain on defined benefit plans	-	-	73
Total other comprehensive income (loss)	-	-	73
Total comprehensive loss	(1,590)	(3,131)	(11,578)
Loss attributable to equity holders of the Company	(1,590)	(3,131)	(11,651)
Total comprehensive loss attributable to equity holders of the Company	(1,590)	(3,131)	(11,578)

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

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (Cont.)**

	Six months ended		Year ended
	30 June		31 December
	Unaudited		Audited
	2016	2015	2015
	U.S. dollars in thousands (except share and per share data)		
Loss per share attributable to equity holders of the Company (in dollars)			
Basic and diluted loss	<u>(0.03)</u>	<u>(0.06)</u>	<u>(0.23)</u>
Weighted average number of Ordinary shares for basic and diluted loss per share (in thousands)	<u>50,428</u>	<u>50,223</u>	<u>50,377</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						Non-controlling interests	Total equity (deficiency)	
	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
	Unaudited								
	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
Total loss and comprehensive loss				-	-	(1,590)	(1,590)	-	(1,590)
Exercise of options	-*	38	(35)			3	3		3
Cost of share-based payment	-	-	38	-	-	-	38	-	38
Balance at 30 June 2016	576	78,380	1,441	10,165	(8,895)	(84,742)	(3,075)	1,946	(1,129)

*less than 1,000 USD.

	Attributable to equity holders of the Company						Non-controlling interests	Total equity	
	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
	Unaudited								
	U.S. dollars in thousands								
Balance at 1 January 2015	574	78,322	1,444	10,165	(8,895)	(71,574)	10,036	1,946	11,982
Total loss and comprehensive loss	-	-	-	-	-	(3,131)	(3,131)	-	(3,131)
Cost of share-based payment	-	-	5	-	-	-	5	-	5
Balance at 30 June 2015	574	78,322	1,449	10,165	(8,895)	(74,705)	6,910	1,946	8,856

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						Non-controlling interests	Total equity	
	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
Audited									
U.S. dollars in thousands									
Balance at 1 January 2015	574	78,322	1,444	10,165	(8,895)	(71,574)	10,036	1,946	11,982
Loss for the year	-	-	-	-	-	(11,651)	(11,651)	-	(11,651)
Other comprehensive income:									
Remeasurement gain on defined benefit plans	-	-	-	-	-	73	73	-	73
Total comprehensive loss	-	-	-	-	-	(11,578)	(11,578)	-	(11,578)
Exercise of options	2	20	(16)	-	-	-	6	-	6
Cost of share-based payment	-	-	10	-	-	-	10	-	10
Balance at 31 December 2015	576	78,342	1,438	10,165	(8,895)	(83,152)	(1,526)	1,946	420

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	30 June		31 December
	Unaudited		Audited
	2016	2015	2015
U.S. dollars in thousands			
<u>Cash flows from operating activities:</u>			
Loss	(1,590)	(3,131)	(11,651)
Adjustments to reconcile loss to net cash provided by (used in) operating activities:			
Company's share of losses of a joint venture	119	18	49
Depreciation, amortization and impairment loss	851	1,451	4,347
Deferred taxes, net	(24)	(14)	(48)
Change in employee benefit liabilities	(29)	(29)	56
Cost of share-based payment	38	5	10
Loss from sale of property, plant and equipment	19	-	173
Finance expenses, net	776	840	1,384
Income tax expense (benefit), net	-	(7)	4
	<u>1,750</u>	<u>2,264</u>	<u>5,975</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(1,359)	1,806	6,104
Decrease (increase) in other receivables	(759)	720	829
Decrease in inventories	3,196	1,585	2,053
Decrease in trade payables	(1,466)	(548)	(1,935)
Increase (decrease) in other payables	(1,104)	261	(300)
	<u>(1,492)</u>	<u>3,824</u>	<u>6,751</u>
Cash paid during the period for:			
Interest paid	(597)	(531)	(1,100)
Taxes paid	-	-	(4)
	<u>(597)</u>	<u>(531)</u>	<u>(1,104)</u>
Net cash provided by (used in) operating activities	<u>(1,929)</u>	<u>2,426</u>	<u>(29)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended		Year ended
	30 June		31 December
	Unaudited		Audited
	2016	2015	2015
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Investment in joint venture	-	-	(228)
Purchase of property, plant and equipment	(207)	(52)	(112)
Additions to intangible assets	-	(75)	(617)
Purchase of short-term investments, net	(11)	(115)	(67)
Net cash used in investing activities	(218)	(242)	(1,024)
<u>Cash flows from financing activities:</u>			
Exercise of options	3	-	6
Receipt of loans from banks	-	-	21,237
Payment of long-term liabilities from banks	(232)	(2,418)	(14,025)
Decrease in short-term credit, net	-	-	(9,880)
Short-term advance from (repayment to) joint venture	(708)	708	708
Factored receivables	-	1,938	-
Repayment of liability for acquisition of subsidiary	(400)	(500)	(950)
Net cash used in financing activities	(1,337)	(272)	(2,904)
Increase (decrease) in cash and cash equivalents	(3,484)	1,912	(3,957)
Cash and cash equivalents at the beginning of the period	7,463	11,420	11,420
Balance of cash and cash equivalents at the end of the period	3,979	13,332	7,463
<u>Significant non-cash transactions:</u>			
Purchase of intangible assets on credit	-	376	-
Liability for acquisition of subsidiary	-	-	3,446
Investment in a joint venture	-	-	50

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and women's tailored fashion. The Company's Headquarters are located in Kiryat Gat, Israel. The Group's products are manufactured by a subsidiary and subcontractors. The Group's products are marketed in Europe (mainly in the U.K.), the U.S. and in other countries. As for operating segments, see Note 4.

b. The interim condensed consolidated financial statements for the six months ended 30 June 2016 were approved for issue in accordance with a resolution of the Board of Directors on 4 September 2016.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of the interim consolidated financial statements:

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2015.

The accounting policies applied in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated annual financial statements for the year ended 31 December 2015.

b. Assessment of going concern:

In 2015 the Group's financial results suffered due to a reduction of a substantial proportion of revenue from its previous largest customer, as announced in May 2014 which, among others, resulted in a loss from operations. Management has taken a number of remedial actions in 2015 and ongoing in 2016, including the implementation of a recovery plan which consists of focusing the core activities on larger sales addition to an efficiency and cost reduction scheme. In December, 2015, the Company also signed amendments to its financing agreements with banks to extend the maturities of loans and revise financial covenants. The Group is acting to increase revenues through plans to expand operations with existing and new-customer predominantly in the US, Europe (including UK) and Australia.

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 (including the projected effects of the remedial actions described above) 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.

c. fair value:

The fair value of cash and cash equivalents, short-term deposits, accounts receivable, short-term credit and loans from banks, trade and other payables approximate their carrying amount due to the short-term maturities of these items. The fair value of non-current loans from banks approximate their carrying value as these loans bear variable interest at rates that are adjusted periodically to market rates.

NOTE 3:- SUPPLEMENTARY INFORMATION

- a. On 7 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 were granted at the exercise price of 0.035 GBP.

The Options are exercisable for a period of 10 years from the grant date.

The Options granted shall vest as follow: 1,000,000 Options will vest on 31 December 2016, another 1,000,000 Options will vest on 31 December 2017 and the balance will vest on 31 December 2018.

The fair value of the Options granted amounted to \$102 thousand.

- b. In January 2016, the Company issued 51,363 Ordinary shares pursuant to an exercise of Options by an employee.

Following the issue of the above shares, the Company's issued share capital consists of 50,428,660 Ordinary shares.

- c. On 10 May 2016, the Company's Board of Directors resolved to reserve for employees of the Company and subsidiaries up to 1,089,750 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 £ 0.0375 under a cashless exercise arrangement.

In May 2016 1,089,750 options were granted for employees of the Company and subsidiaries. The options vest in 3 equal tranches on 10 May 2017, 2018, and 2019, respectively. The Options are exercisable for a period of 10 years from the grant date.

The fair value of the Options granted amounted to \$29 thousand.

- d. In January 2016, the Israeli Parliament's Plenum approved the Bill for Amending the Income Tax Ordinance (No. 217) (Reducing of Corporate Tax Rate), 2016, which includes a reduction of the corporate tax rate from 26.5% to 25%. The amendment is effective starting 1 January 2016.

The change in tax rate did not have a material effect on the balance of deferred taxes in the financial statements.

NOTE 4:- OPERATING SEGMENTS

a. General:

The Group's activity is the manufacturing and marketing of men and women's tailored fashion (mainly men's).

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. The Group's products are primarily marketed to two geographical areas: Europe and the U.S. and, accordingly, the Company has two geographical segments. The Company's activities in Europe are concentrated primarily in the U.K.

b. Financial information on operating segments:

	Europe (mainly the U.K.)	U.S.	Other	Total
	Unaudited			
	U.S. dollars in thousands			
Six months ended 30 June 2016 :				
Total revenues from external customers	10,119	22,095	1,289	33,503
Segment profit (loss)	(1,878)	1,578	273	(27)
Unallocated expenses, net				(119)
Finance expenses, net				(1,468)
Loss before tax benefit				(1,614)
	Europe (mainly the U.K.)	U.S.	Other	Total
	Unaudited			
	U.S. dollars in thousands			
Six months ended 30 June 2015 :				
Total revenues from external customers	22,858	20,821	1,795	45,474
Segment profit (loss)	(2,858)	654	327	(1,877)
Unallocated expenses, net				(18)
Finance expenses, net				(1,257)
Loss before tax benefit				(3,152)
	Europe (mainly the U.K.)	U.S.	Other	Total
	Audited			
	U.S. dollars in thousands			
Year ended 31 December 2015:				
Total revenues from external customers	35,835	36,444	2,928	75,207
Segment profit (loss)	(8,773)	(604)	689	(8,688)
Unallocated expenses, net				(49)
Finance expense, net				(2,958)
Loss before income taxes				(11,695)

NOTE 5:- SUBSEQUENT EVENTS

During July 2016 the Company signed an agreement with its lenders, Bank Leumi and Discount Bank to clear all outstanding bank debt (approximately \$21 million) Subject to the fulfillment of some conditions before 31 December, 2016. Additionally, the Company intends to undertake a private placement to raise approximately \$8.5 million (“Private Placement”).

Agreement with Lenders

Under the agreement the Company’s two principal lenders have agreed to accept a partial repayment and then to write-off the balance of all bank loans amounting to approximately \$21 million and associated obligations, subject to the Company fulfilling the following conditions to them pro rata before 31 December, 2016:

- Cash payment of \$6.3 million to be funded from the proposed Private Placement (“Cash Payment”).
- Allocation to the lenders of 8.33% of the Company’s total issued share capital post the completion of the Private Placement.

On receipt of the Cash Payment and issue of new ordinary shares to the banks, each of the banks shall write-off the outstanding balance of the obligations and liabilities of the Company to the banks and any liens, mortgages, and guarantees created in favor of the banks, will also be cancelled.

Additionally, if the Company generates annual EBITDA above \$6.5 million between 2016 and 2024 then a contingent payment will be due of 50% of the excess of annual EBITDA generated above \$6.5 million up to a maximum payment in aggregate of \$8.0 million.

In addition, the Company is required to repay approximately \$0.3m to Discount Bank out of secured short-term deposit.

Proposed Private Placement

The Company intends to raise approximately \$8.5 million (before expenses) by way of a Private Placement from both existing and new shareholders.

Of the net proceeds from the Private Placement \$6.3 million will be used to repay the lenders and the balance will be used as working capital to support the business operations.

The Private Placement is interdependent on the completion of the Bank Refinancing.

Completion of the Private Placement is subject inter alia to shareholder approval, which will be sought at a General Meeting of the Company.
