

11 September 2014

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

Interim Results
for the six months ended 30 June 2014

Bagir (AIM: BAGR), a designer, creator and provider of innovative formalwear tailoring, announces its results for the six months ended 30 June 2014.

The results for the first half are in line with expectations. The Board continues to expect revenue for the year to 31 December 2014 to be approximately \$100m to \$102m and EBITDA to be approximately \$4m to \$5m* (as announced on 22 July 2014).

Financial highlights

- Revenue of \$48.0m
- Gross margin of 18.1%
- Adjusted operating income of \$0.3m*
- Adjusted loss before tax of \$(2.1)m**
- Adjusted EBITDA of \$1.7m*
- Basic and fully diluted loss per share of \$(0.10)***
- Net debt at 30 June 2014 of \$8.5m
- Cash and cash equivalents at 30 June 2014 of \$16.1m

* Adjusted for IPO expenses of \$0.3m

** Adjusted for IPO expenses and including finance expenses on pre IPO debt

*** Including finance expenses on pre IPO debt

Operating highlights

- Implemented a cost savings plan and started a comprehensive process of examining operating processes and strategic focus. The review has been designed to reduce operating costs, improve operating profitability and enhance the Company's sales and marketing performance

Investment in a production facility in Ethiopia

- Bagir has signed a conditional agreement to purchase a 50% stake in Nazareth Garments Share Company ("Nazareth"), an Ethiopian company which owns and operates a garment factory in Ethiopia, for a total consideration of \$1.5m
- Agreement is subject to several conditions which are to be met by both Nazareth and Bagir
- Closing is anticipated in Q4 2014
- The production facility in Ethiopia is expected to give Bagir a competitive advantage due to the duty free export environment to the EU and US, the competitive costs, and the government support for the textile industry

Danny Taragan, CEO of Bagir Group Ltd, said:

"As a result of the significant impact of the change in business process from our largest customer, the Company continues to implement cost saving measures. As a result, the Board has commenced a review of its operating processes which we expect will bring improvements to our profitability. Positive signals from the Company's other customers in the UK are expected to help partially mitigate the reduction of sales from our largest customer.

"We have today announced the potential investment in an Ethiopian production facility which is a very exciting opportunity for Bagir. Given the duty free export environment from Ethiopia to the EU and US, the competitive costs, and the strong Ethiopian government support for the textile industry, Bagir anticipates this investment in Ethiopia will help create a stronger competitive advantage for the Company.

"The Board considers that the work being undertaken and the potential new investment will strengthen the position of the Company."

For further information, please contact:

Bagir Group Ltd.

Danny Taragan, Chief Executive Officer
Udi Cohen, Chief Financial Officer

via FTI Consulting

N+1 Singer

Jonny Franklin-Adams
Alex Wright
Emily Watts

+44 (0) 20 7496 3000

FTI Consulting

Alex Beagley / Tom Hufton

+44 (0) 20 3727 1000

Operating Overview

Global Sales

Revenue from the UK segment for the six months to 30 June was \$26.6m, broadly flat with the first half of 2013. Whilst sales from the Company's largest customer declined as anticipated, revenue from other UK customers increased, giving encouraging signals for the future.

Revenue from the US segment for the first half amounted to \$20.9m, a reduction of \$3.3m compared with the first half of 2013. This reduction is attributed mainly to two large projects that were supplied during the first half of 2013 and which, as expected, did not recur in the first half of 2014.

The development of the ladieswear segment and the Australian market continues to progress well. Furthermore, the Company is currently developing a new product range with the licensed brand, Peckham Rye, which is expected to be presented to customers in early 2015 and which will enhance the Company's brand activity.

Cost Savings Plan and Strategy Review

Following the Company's announcement of 15 May 2014, the Company implemented a cost savings plan which the Board believes will help reduce operating costs and improve the Company's profitability going forward.

Furthermore, the Company commenced a comprehensive review of its operating processes and its strategic focus. This review, which is expected to complete in Q4 2014, is expected to improve the Company's operating efficiency and enhance its sales and marketing performance in its key markets.

Investment in a production facility in Ethiopia

Bagir has signed a conditional agreement to invest in a production facility in Ethiopia. Once completed, the agreement will see Bagir purchase a 50% stake in Nazareth Garments Share Company ("Nazareth"), an Ethiopian company which owns and operates a garment factory in Ethiopia, for a total consideration of \$1.5m, payable in cash on completion. \$1.2m of the total consideration will be used for general working capital purposes and facility improvements with the balance paid to the shareholders of Nazareth. The agreement is subject to several conditions which are to be met by both Nazareth and Bagir, and closing is anticipated in Q4 2014.

The factory in Ethiopia manufactures trousers and formal shirts predominantly for the Ethiopian market. Nazareth currently employs approximately 400 staff and owns a 9,000m² factory building and the 50,000m² plot on which the factory is located. As at July 2013, being the end of Nazareth's fiscal year, Nazareth had revenue of approximately \$0.9m, profit before tax of approximately \$0.2m and net assets of approximately \$0.3m.

Following completion of the agreement, the factory is expected to undergo certain upgrades to its facilities to enable the production of high quality trousers and jackets for export into the global market. This is currently forecast to commence during the first half of 2015.

Financial Review

Revenue

Revenue for the six months ended 30 June 2014 was \$48.0m, which was in line with expectations. This was a \$3.3m reduction on the comparable period last year which was due mainly to two large projects that were completed by the Company during the first half of 2013, which as expected, did not continue into 2014.

Gross margin

The gross margin for the six months ended 30 June 2014 was 18.1% compared with 18.7% for the first half of 2013. Again, this decline was mainly due to the completion of the large programs mentioned above which had higher margins compared with the Company's average margins for the period.

Operating expenses

The development costs for the first half of 2014 increased to \$2.1m (H1 2013: \$1.6m) to support the planned growth and expansion of the Company's ladieswear offering, increased brand activity and promotion, and a targeted increase in sales in the US and Australian markets, as well as an increase in amortization of capitalized development costs.

The general and administrative expenses increased to \$2.0m in the period (H1 2013: \$1.7m), due predominantly to the additional administrative costs associated with being a quoted company.

In addition, the Company incurred one-off costs of \$0.3m associated with the Company's IPO. These costs have been included as part of the Company's operating expenses for the period.

As highlighted above, the cost saving plan implemented by the Company following its announcement of 15 May 2014 is expected to reduce operating costs going forward, particularly in 2015.

Operating income and loss before taxation

Operating income and loss before tax (before IPO expenses) for the six months ended 30 June 2014 was \$0.3m and \$(2.1)m respectively, compared with \$2.0m and \$(0.4)m respectively for the first half of 2013. The loss before tax was after finance expenses on pre IPO debt.

EBITDA

EBITDA (before IPO expenses) for the six months ended 30 June 2014 was \$1.7m (H1 2013: \$3.2m).

This reduction is due to the expected decline in revenue compared to the first half of the previous year, associated with the two large programs referred to above, which had higher gross margin than on average, as well as the aforementioned increase in operating costs.

Loss per share

Basic and fully diluted loss per share for the period was \$(0.10) (H1 2013: \$(0.13)), after pre IPO finance expenses.

Net debt

As at 30 June 2014, net debt decreased significantly to approximately \$8.5m compared with \$50.3m at 31 December 2013 and \$49.7m at 30 June 2013. Net debt reduced as a result of the Company's IPO in April 2014 and the conversion of the Company's previous loan notes into equity. The Board considers that this improvement in the Company's balance sheet will greatly enhance the Company's standing with new and existing customer and other third parties.

Cash and cash equivalents

As at 30 June 2014, cash and cash equivalents increased to \$16.1m compared with \$2.7m at 31 December 2013 and \$4.0m at 30 June 2013.

Outlook

Current trading since the period end remains in line with market expectations.

Despite the previously announced reduction in sales from its largest customer, the Company continues to develop its offering with new and other existing customers in the UK, the US and Australia and hopes to continue to improve sales from these customers going forward. The result of the cost reductions implemented earlier in the year is also expected to improve the Group's financial performance in 2015.

As noted above, the operational review which is currently underway is expected to identify cost savings and efficiency measures which, once implemented, should help improve profitability and enhance the Company's sales and marketing performance.

The Board considers that the work being undertaken and the potential new investment will strengthen the position of the Company.

BAGIR GROUP LTD.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF 30 JUNE 2014
UNAUDITED
IN U.S. DOLLARS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<u>30 June</u>		<u>31 December</u>
	<u>Unaudited</u>		<u>Audited</u>
	<u>2014</u>	<u>2013</u>	<u>2013</u>
	U.S. dollars in thousands		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	16,142	4,035	2,670
Short-term investments	434	658	600
Trade receivables	10,586	8,095	8,168
Other receivables	3,235	1,281	2,047
Inventories	7,910	7,607	6,620
	<u>38,307</u>	<u>21,676</u>	<u>20,105</u>
NON-CURRENT ASSETS:			
Bank deposits	-	278	290
Property, plant and equipment	1,473	1,618	1,595
Goodwill	5,689	5,689	5,689
Other intangible assets	6,073	8,222	7,234
Deferred taxes	450	486	486
	<u>13,685</u>	<u>16,293</u>	<u>15,294</u>
	<u><u>51,992</u></u>	<u><u>37,969</u></u>	<u><u>35,399</u></u>

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
	2014	2013	2013
	U.S. dollars in thousands		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans	11,500	12,131	11,537
Trade payables	7,383	7,712	6,852
Other payables	6,079	9,773	9,773
	24,962	29,616	28,162
NON-CURRENT LIABILITIES:			
Loans from banks	13,115	21,294	20,700
Capital notes to shareholders and loans from shareholders and their related companies	-	20,332	20,748
Employee benefit liabilities	520	438	479
Obligation relating to lease agreement	430	1,069	793
Payable for acquisition of subsidiary	-	1,021	461
Deferred taxes	140	188	164
	14,205	44,342	43,345
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	574	30	30
Share premium	78,449	27,879	27,879
Capital reserve for share-based payment transactions	1,428	1,367	1,411
Capital reserve for transactions with shareholders	10,165	9,432	10,165
Adjustments arising from translation of foreign operations	(8,964)	(9,028)	(9,111)
Accumulated deficit	(70,773)	(67,615)	(68,428)
	10,879	(37,935)	(38,054)
Non-controlling interests	1,946	1,946	1,946
	12,825	(35,989)	(36,108)
<u>Total equity (deficiency)</u>	51,992	37,969	35,399

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
	2014	2013	2013
U.S. dollars in thousands			
Revenues from sales	48,023	51,358	99,490
Cost of sales	39,354	41,759	80,478
Gross profit	8,669	9,599	19,012
Selling and marketing expenses	4,226	4,382	8,665
General and administrative expenses	2,024	1,706	3,682
Development costs	2,134	1,565	3,350
Expenses in connection with IPO	301	-	-
Other income, net	12	48	289
Operating income (loss)	(4)	1,994	3,604
Finance income	-	-	427
Finance expenses	(1,801)	(1,472)	(3,531)
Finance expenses relating to liabilities to shareholders	(563)	(801)	(1,589)
Company's share of losses of a joint venture	-	(110)	(110)
Other income, net	-	9	19
Loss before taxes on income	(2,368)	(380)	(1,180)
Taxes on income (tax benefit)	(23)	21	40
Loss	(2,345)	(401)	(1,220)
Other comprehensive income (loss), net of tax:			
<u>Items to be reclassified or that are reclassified to profit or loss when specific conditions are met:</u>			
Adjustments arising from translation of foreign operations	147	71	(12)
<u>Items not to be reclassified to profit or loss in subsequent periods:</u>			
Actuarial gain on defined benefit plans	-	-	6
Other comprehensive income (loss)	147	71	(6)
Total comprehensive loss	(2,198)	(330)	(1,226)
Loss attributable to equity holders of the Company	(2,345)	(401)	(1,220)
Total comprehensive loss attributable to equity holders of the Company	(2,198)	(330)	(1,226)

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
	2014	2013	2013
	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>(0.10)</u>	<u>(0.13)</u>	<u>(0.39)</u>
Weighted average number of Ordinary shares for basic and diluted loss per share *)	<u>22,749,254</u>	<u>3,125,000</u>	<u>3,125,000</u>

*) After share split, see Note 3(d).

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								
	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 (deficiency)
	Unaudited								
	U.S. dollars in thousands								
Balance at 1 January 2014	30	27,879	1,411	10,165	(9,111)	(68,428)	(38,054)	1,946	(36,108)
Loss	-	-	-	-	-	(2,345)	(2,345)	-	(2,345)
Other comprehensive loss:									
Adjustments arising from translation of foreign operations	-	-	-	-	147	-	147	-	147
Total comprehensive loss	-	-	-	-	147	(2,345)	(2,198)	-	(2,198)
Issue of share capital (net of issue expenses of \$ 3.7 million)	412	29,392	-	-	-	-	29,804	-	29,804
Conversion of capital notes to shareholders and loans from shareholders into shares	132	21,178	-	-	-	-	21,310	-	21,310
Cost of share-based payment	-	-	17	-	-	-	17	-	17
Balance at 30 June 2014	574	78,449	1,428	10,165	(8,964)	(70,773)	10,879	1,946	12,825

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								
	Share capital	Share premium	Capital reserve for share-based transactions	Capital reserve for transactions with shareholders	Adjustments arising from translation of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total equity (deficiency)
			Unaudited	Unaudited	Unaudited	Unaudited			
U.S. dollars in thousands									
Balance at 1 January 2013	30	27,879	1,367	5,623	(9,099)	(67,214)	(41,414)	1,946	(39,468)
Loss	-	-	-	-	-	(401)	(401)	-	(401)
Other comprehensive loss:									
Adjustments arising from translation of foreign operations	-	-	-	-	71	-	71	-	71
Total comprehensive income (loss)	-	-	-	-	71	(401)	(330)	-	(330)
Capital reserve for capital notes to shareholders	-	-	-	3,809	-	-	3,809	-	3,809
Balance at 30 June 2013	30	27,879	1,367	9,432	(9,028)	(67,615)	(37,935)	1,946	(35,989)

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								
	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 (deficiency)
			Audited						
U.S. dollars in thousands									
Balance at 1 January 2013	30	27,879	1,367	5,623	(9,099)	(67,214)	(41,414)	1,946	(39,468)
Loss	-	-	-	-	-	(1,220)	(1,220)	-	(1,220)
Other comprehensive loss:									
Adjustments arising from translation of foreign operations	-	-	-	-	(12)	-	(12)	-	(12)
Actuarial gain on defined benefit plans	-	-	-	-	-	6	6	-	6
Total other comprehensive income (loss)	-	-	-	-	(12)	6	(6)	-	(6)
Total comprehensive loss	-	-	-	-	(12)	(1,214)	(1,226)	-	(1,226)
Cost of share-based payment	-	-	44	-	-	-	44	-	44
Capital reserve for capital notes to shareholders and loans from shareholders	-	-	-	4,542	-	-	4,542	-	4,542
Balance at 31 December 2013	30	27,879	1,411	10,165	(9,111)	(68,428)	(38,054)	1,946	(36,108)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	Unaudited		Audited
	2014	2013	2013
	U.S. dollars in thousands		
<u>Cash flows from operating activities:</u>			
Loss	(2,345)	(401)	(1,220)
Adjustments to reconcile loss to net cash used in operating activities:			
Company's share of losses of a joint venture	-	110	110
Depreciation and amortisation	1,398	1,221	2,487
Deferred taxes, net	12	(24)	(48)
Change in employee benefit liabilities	41	(138)	(97)
Cost of share-based payment	17	-	44
Gain from sale of property, plant and equipment	-	-	(16)
Finance expenses, net	1,313	1,538	4,065
Tax expenses (income), net	(35)	45	88
Other	193	133	80
	<u>2,939</u>	<u>2,885</u>	<u>6,713</u>
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(2,402)	275	288
Decrease (increase) in other receivables	(1,190)	1,901	1,090
Decrease (increase) in inventories	(1,269)	(556)	519
Increase (decrease) in trade payables	501	(384)	(1,307)
Decrease in other payables	(3,479)	(3,773)	(5,174)
	<u>(7,839)</u>	<u>(2,537)</u>	<u>(4,584)</u>
Cash paid (received) during the period for:			
Interest paid	(826)	(970)	(1,948)
Interest received	17	-	-
Taxes paid	(264)	-	(2)
	<u>(1,073)</u>	<u>(970)</u>	<u>(1,950)</u>
Net cash used in operating activities	<u>(8,318)</u>	<u>(1,023)</u>	<u>(1,041)</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended 30 June		Year ended 31 December
	Unaudited		Audited
	2014	2013	2013
	U.S. dollars in thousands		
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment	(113)	(32)	(258)
Proceeds from sale of property, plant and equipment	-	-	16
Realisation (purchase) of short-term investments, net	166	(53)	11
Bank deposits, net	290	-	-
Proceeds from sale of assets held for sale	-	607	607
Proceeds from sale of investment in a joint venture	-	2,707	2,707
Dividend from a joint venture	-	442	442
	343	3,671	3,525
<u>Cash flows from financing activities:</u>			
Issue of shares, net of expenses	29,804	-	-
Receipt of loans from banks	3,000	23,000	23,000
Payment of long-term liabilities from banks	(10,204)	(12,099)	(12,891)
Decrease in short-term credit, net	(410)	(12,184)	(12,244)
Repayment of liability for acquisition of subsidiary	(750)	(563)	(939)
	21,440	(1,846)	(3,074)
Translation differences on balances of cash and cash equivalents of foreign operations	7	(42)	(15)
Increase (decrease) in cash and cash equivalents	13,472	760	(605)
Cash and cash equivalents at the beginning of the period	2,670	3,275	3,275
Balance of cash and cash equivalents at the end of the period	16,142	4,035	2,670
<u>Significant non-cash transactions:</u>			
Conversion of capital notes to shareholders and loans from shareholders into shares	21,310	-	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

a. Bagir Group Ltd. ("the Company") is registered in Israel.

The Company and its subsidiaries ("the Group") specialise in the manufacturing and marketing of men's and women's tailored fashion. 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.

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). In the IPO, the Company issued 35,714,285 Ordinary shares at a price of 56 pence per Ordinary share. The total gross funds raised in the IPO were GBP 20 million (\$33.5 million) and IPO related costs amounted to approximately \$3.7 million.

Concurrent with the IPO, the Company issued 11,383,925 Ordinary shares to certain shareholders in consideration for the extinguishment of all capital notes and loans due to these shareholders with a carrying amount of approximately \$21,310 thousand (par value of approximately \$25,989 thousand).

c. The interim condensed consolidated financial statements for the six months ended 30 June 2014 were approved for issue in accordance with a resolution of the Board of Directors on 10 September 2014.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

The interim condensed consolidated financial statements for six months ended 30 June 2014 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 financial statements as at 31 December 2013.

b. New standards, interpretations and amendments adopted by the Company:

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated annual financial statements for the year ended 31 December 2013, except for the adoption of the following amendments effective as of 1 January 2014:

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The adoption of these amendments had no impact on the consolidated financial statements.

c. Fair value:

The fair value of cash and cash equivalents, short-term investments, trade and other receivables, bank deposits, credit and loans from banks and trade and other payables approximates their carrying amount.

d. Disclosure of new IFRS standards in the period prior to their adoption:

(1) IFRS 15, "Revenue from Contracts with Customers":

IFRS 15 was issued by the IASB in May 2014.

IFRS 15 replaces IAS 18, "Revenue" and several other revenue recognition standards. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

IFRS 15 is effective for reporting periods beginning on or after 1 January 2017 with early application permitted. Entities can choose to apply IFRS retrospectively or to use a modified transition approach.

(2) IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("the final Standard") which includes the following elements: classification and measurement, impairment and hedge accounting.

The main changes between the final Standard and the previously published phases of the Standard are:

Classification and measurement:

The final version of IFRS 9 includes another category for the classification and measurement of financial assets that are debt instruments and which meet certain criteria. Financial assets classified in this category will be measured at fair value through other comprehensive income ("FVOCI") and the differences previously carried to other comprehensive income as above will be reclassified to profit or loss under specific conditions such as when the asset is derecognised. Finance income, exchange rate differences and impairment losses on financial assets, however, will be recognised in profit or loss.

Impairment:

The final Standard addresses the issue of impairment of financial assets by introducing the expected credit loss impairment model to replace the incurred loss model prescribed in IAS 39. The expected credit loss model applies to debt instruments measured at amortised cost or at FVOCI and to trade receivables.

The final Standard will be applied retrospectively, subject to certain exemptions, in the financial statements for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The Company is evaluating the possible impact of the adoption of IFRS 15 and IFRS 9 but is presently unable to assess their effect, if any, on the financial statements.

NOTE 3:- SUPPLEMENTARY INFORMATION

a. In February 2014, the Company received additional long-term loans from banks in the amount of \$3 million. The loans bear variable interest at Libor plus 4.9% (interest rate at date of receipt of loans – 5.25%). These loans together with other long-term bank loans amounting to \$6 million were repaid from the proceeds from the IPO in April and May 2014.

b. In March and in April 2014, the Company signed amendments to certain bank loan agreements (the "amendments"), which amendments became effective after the completion of the IPO.

Pursuant to the amendments:

1. The Company made an early repayment of bank loans in the amount of \$9 million (see a. above).
2. The Company undertakes that the aggregate of all dividends to be distributed each year to its shareholders will not exceed 55% of the annual net income in that calendar year, except that with respect to the year 2014, the Company may distribute dividends in the aggregate of not more than 70% of the annual net income for 2014.
3. The Company agreed to meet revised financial covenants regarding debt coverage ratio, minimum equity and minimum tangible equity. The Company's compliance with the revised covenants will first be evaluated based on the annual consolidated financial statements as of 31 December 2014 and commencing from 2015 and thereafter compliance will be evaluated based on the six- month interim and the annual consolidated financial statements.

In May and June 2014, the Company reached understandings with its banks to amend certain of the financial covenants as of 30 June 2014 and 31 December 2014.

As of 30 June 2014, the Company is complying with the financial covenants based on the above understandings and the debt agreement with the banks.

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, a further 25% vests on 31 December 2014 and a further 25% vests on 31 December 2015. The options expire 10 years from the date of grant. The fair value of the options granted is immaterial.

d. In a meeting of the shareholders of the Company held in April 2014, the following resolutions were approved:

- The authorised (including issued) share capital of the Company of NIS 1,000,000 divided into 900,000 Ordinary A shares of NIS 1.0 each and 100,000 Ordinary B shares of NIS 1.0 each was re-designated and sub-divided (split), conditional on Admission, into 25,000,000 Ordinary shares of NIS 0.04 each.

All share and per share amounts in these financial statements reflect the aforementioned share split.

- The conversion into Ordinary shares of the Company, conditional upon Admission, of all capital notes and loans due to certain shareholders with a par value of approximately \$25,989 thousand (see Note 1(b)).

- To increase the Company's registered (authorised) share capital by NIS 1,200,000 divided into 30,000,000 ordinary shares par value NIS 0.04 each, following which the Company's share capital shall amount to NIS 2,200,000 divided into 55,000,000 ordinary shares par value 0.04 each.

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 throughout the world: Europe and the U.S. and, accordingly, the Group has two geographical segments.

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, 2014 :				
Total revenues from external customers	<u>26,622</u>	<u>20,933</u>	<u>468</u>	<u>48,023</u>
Segment profit (loss)	<u>(551)</u>	<u>708</u>	<u>166</u>	<u>323</u>
Unallocated expenses, net				(327)
Finance expenses, net				<u>(2,364)</u>
Loss before tax benefit				<u>(2,368)</u>

b. Financial information on operating segments: (Cont.)

	Europe (mainly the U.K.)	U.S.	Other	Total
	Unaudited			
	U.S. dollars in thousands			
Six months ended 30 June, 2013 :				
Total revenues from external customers	26,745	24,249	364	51,358
Segment profit	813	1,142	-	1,955
Unallocated expenses, net				(62)
Finance expenses, net				(2,273)
Loss before taxes on income				(380)

	Europe (mainly the U.K.)	U.S.	Other	Total
	Audited			
	U.S. dollars in thousands			
Year ended 31 December 2013:				
Total revenues from external customers	54,610	44,240	640	99,490
Segment profit	1,373	2,134	-	3,507
Unallocated income, net				6
Finance expense, net				(4,693)
Loss before taxes on income				(1,180)

NOTE 5:- SUBSEQUENT EVENTS

On 31 July 2014, the Company signed an agreement with a company in Ethiopia ("the target company") and the target company's shareholders according to which the Company will purchase a 50% interest in the target company for a total cash consideration of \$ 1.5 million, of which \$ 1.2 million will be an equity injection in the target company and the balance will be paid to the target company shareholders.

The target company has a factory that manufactures tailored clothing. The agreement stipulates that the substantial majority of the target company's products will be sold to the Company. Following this investment, the factory will undertake certain upgrades to its production facilities to enable the production of high quality trousers and jackets for export into the global market, which is due to commence in early 2015. The transaction is subject to the fulfillment of certain conditions which have not yet been completed as of the date of approval of the financial statements.