



ANNUAL REPORT & ACCOUNTS

2018

For the year ended December 31, 2018

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Board of Directors, Secretary and Advisers

Directors

Tessa Laws (Non-Executive Chairman)
Eran Itzhak (Chief Executive Officer)
Marc Zalcman (Non-Executive Director)
Samuel Vlodinger (Non-Executive Director)
Esti Maoz (Non-Executive External Director)

Company Secretary

Gary Copelovitz, Adv. c/o Lipa Meir & Co.
 Beit Amot Hashkaot 2 Weizmann Street
 Tel-Aviv 64239, Israel

Registered Office

44 Israel Pollack Road
 Kiryat Gat 82101, Israel

Website

www.bagir.com

Nominated Adviser and Broker

N+1 Singer Advisory LLP
 One Bartholomew Lane
 London EC2N 2AX

Legal advisers to the Company as to English Law

Kuit Steinart levy LLP
 3 St Mary's Parsonage Manchester M3 2RD

Legal advisers to the Company as to Israeli Law

Lipa Meir & Co.
 Beit Amot Hashkaot 2 Weizmann Street
 Tel Aviv 64239, Israel

Internal Auditor

Dana Gottesman- Erlich, C.P.A (Isr.),
 MA,CIA,CRMA
 BDO Consulting Group
 Head Office: Amot Bituach House
 Building B 48
 Menachem Begin Road,
 Tel-Aviv 66180, Israel

Auditors to the Company

Kost Forer Gabbay & Kasierer,
 A member of Ernst & Young Global
 144 Menachem Begin Street
 Tel Aviv 6492102, Israel

Public Relations adviser to the Company

Novella Communications
 1a Garrick House, Carrington Street
 London W1J 7AF

Registrar

Link Market Services Trustees Limited
 6th Floor, 83 Princes Street, Edinburgh,
 EH2 2ER

Highlights

About the Company

Bagir Group plc and its subsidiaries (“Bagir Group”, “Bagir” or “the Company”) is a global innovative tailoring provider which specializes in developing, manufacturing and marketing high quality men’s and women’s tailored fashions and workwear. Bagir Group leverages its global presence, vertical structure and innovation in order to provide consumers with the ultimate wearing experience combining fashion, comfort, performance and value.

2018 Highlights

- 10% revenue growth to \$56.4m (2017: \$51.1m) reflecting new client wins and increased purchase orders from certain existing customers.
- Return to adj. EBITDA* profitability in H2 following short term cost increases, due to expanding production capacity in Ethiopia and moving to more cost competitive manufacturing programs in Vietnam and Egypt, in the first half of the year.
- Previously announced cost reduction program has successfully saved \$2.7m of annualized fixed costs.
- Adjusted EBITDA* loss of \$1.0m (2017: profit of \$0.6m) in line with management’s expectations.
- Cash and cash equivalents of \$3.1m (2017: \$2.6m).
- On 9 October 2018, shareholders approved Shandong Ruyi’s \$16.5m proposed investment in and strategic partnership with Bagir.
- On 31 December 2018, a new unconditional completion date, of 30 May 2019, was announced for Shandong Ruyi to make the remaining cash payment of \$13.2m. All other conditions relating to the proposed investment have been completed.
- On 13 February 2019, it was announced that Shandong Ruyi will provide suit jacket manufacturing equipment, with an estimated market value of \$1.3m, for nil consideration and improved credit terms on the acquisition of up to 500,000 meters of wool and wool blends fabrics.

* The Adjusted 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, non-cash share based compensation and excluding other expenses/income. In 2018 the Adjusted EBITDA figure, excluding \$0.9m reorganization expenses, net of other expenses (in 2017 the Adjusted EBITDA figure, excluding \$0.9m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses).

Outlook

- As announced on 31 December 2018, trading conditions are likely to remain challenging in 2019, however, the Directors believe that through implementing the strategic plan, together with the ongoing operational cost base reductions and a strong order backlog, the Company is well placed going into 2019.
- Sales in the three months ended 31 March 2019 were \$16.3m (31 March 2018: \$11.2m) and the Company has an order backlog of \$30.6m.
- The Directors expect that the completion of the proposed investment by Shangdong Ruyi and its operational support will transform the Company and its ability to compete and win major apparel manufacturing contracts from the world's largest retailers, developing the Ethiopian manufacturing base far quicker and with more certainty than the Company would be able to do independently.

Strategic and Financial Review

Introduction

Trading in 2018 reflected a challenging market environment. While the Company achieved good topline growth and gained interest from key global customers in the future manufacturing potential of its sites in Egypt, Vietnam and in the longer-term, Ethiopia, profitability in the period declined as a result of transitional costs incurred during the first half due to the investment in expanding the production lines in Ethiopia and the move to more competitive costing manufacturing programs in Vietnam and Egypt.

Operational review

Our strategy remains focused on creating internationally competitive manufacturing bases, to combine with the Company's innovative tailoring capabilities, with the aim of winning major apparel manufacturing contracts from the world's largest retailers. To that end, Bagir re-aligned its manufacturing bases to 3 key geographical locations: Egypt, Ethiopia and Vietnam.

The Directors believe that Ethiopia, in particular, represents a unique opportunity to establish a market leading base over the medium to longer term. Ethiopia offers significant commercial advantages given its tariff free trade to the Company's target markets, low production costs and strong local government support to the textile industry.

Alongside its focusing on winning large apparel contracts, tailored corporate workwear is a growing market for the Company. The Group has established a successful business in this sector with well-known clients in the aviation, transport and service sectors. It is a specialist market with good margins in which Bagir has a growing track record.

During the year the Company has continued to pursue its cost reduction program. As part of this, the Company reduced the number of production sites from six to five, and will further reduce to four sites by Q3 2019, with a production site in in Egypt and Ethiopia and two sites in Vietnam. The reduction in production sites is expected to enhance the Group's ability to monitor and control output as well as reduce overhead costs.

As announced in the interim results in September 2018, the Company was seeking to make cost savings of approximately \$5.0 million on an annualized basis. This was, in part, to be achieved by ceasing the Company's activities in the UK and focusing on the larger US market. Since then, the Company has secured major apparel contracts with leading UK retailers from which the net contributions are expected to outweigh

the benefits of the proposed cost reductions. The Company will therefore maintain a UK office, albeit with a smaller team, to service these key clients.

As a result of the above, the cost reduction program, which has now completed, secured approximately \$2.7 million of annualized cost savings. In addition to the reduction of production sites, the savings have primarily come from a workforce efficiency program.

Financial results

Revenue for 2018 was in line with management expectations and amounted to \$56.4m compared with \$51.1m for 2017 reflecting new customer wins and increased purchase orders from certain existing customers.

The costs associated with developing[/expanding] the Company's manufacturing facilities in Ethiopia, together with the transitional costs of moving production to more cost competitive manufacturing programs in Vietnam and Egypt in H1, affected gross margin for 2018 which decreased to 9.8% compared to 15.0% in 2017. In both Q3 and Q4 2018 the Company has returned to adj. EBITDA profitability and positive cash flows.

Operating expenses for 2018 reduced, when compared with the same period last year, to \$8.2m (2017: \$9.2m) as a result of the cost reduction program. The Company expects that a further decrease of \$1.7m will be realized in 2019 due to the annualized cost savings achieved this year.

Within operating expenses, selling and marketing expenses decreased to \$4.8m in 2018 (2017: \$5.0m), development costs were unchanged at \$0.8m (2017: \$0.8m) and general and administrative expenses decreased to \$2.6m (2017: \$3.3m).

The Adjusted EBITDA* loss for 2018 amounted to \$(1.0)m, compared with Adjusted EBITDA* profit of \$0.6m in 2017.

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 fair value and depreciated over the contract period. As a consequence of implementing this new accounting standard, the depreciation costs in 2018 and 2017 increased by c\$0.6m.

In 2018, the Company had one off expenses of \$1.1m, of which \$0.9m relates to one off charges in implementing the Company's cost reduction and efficiency program. As a result, the operating loss for 2018 amounted to \$3.8m compared with a loss of \$0.6m in 2017.

The adjusted net loss** for 2018 amounted to \$4.7m, compared with an adjusted net loss** of \$4.0m in 2017.

Cash and cash equivalents at 31 December 2018 increased to \$3.1m compared with \$2.6m at 31 December 2017.

Short term credit at 31 December 2018 amounted to \$10.0m compared with \$2.2m at 31 December 2017, mainly attributable to the factoring facility changing to recourse terms, import financing facility and a bank loan taken out Ethiopia (on 31 December 2017 the customer balance included \$2.0m non-recourse factoring facility).

* The Adjusted 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, non-cash share based compensation and excluding other expenses/income. In 2018 the Adjusted EBITDA figure, excluded \$0.9m of reorganisation expenses, net of other expenses (in 2017 the Adjusted EBITDA figure, excluded \$0.9m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses).

**The Adjusted Net Loss is a non-IFRS measure that the Company uses to measure its performance. It is defined as loss for the year excluding other expenses/income. In 2018 the Adjusted EBITDA figure, excluded \$0.9m of reorganisation expenses, net of other expenses (in 2017 the Adjusted EBITDA figure, excluded \$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 and headquartered in Jining, Shandong, the Shandong Ruyi Group is one of the largest textile enterprises in China and ranks among the Top 100 Chinese multi-national companies. The Shandong Ruyi Group predominately engages in textile offerings, using wool, cotton, ecological fibers and synthetic fibres, and owns a fully-integrated value chain with operations spanning across raw materials cultivation, textiles processing, and design and sale of brands and apparel.

The Shandong Ruyi Group operates 13 manufacturing facilities domestically and boasts some of the largest production lines and advanced technologies in China. The Shandong Ruyi Group also has significant distribution with more than 5,000 points of sales (POS) across 40 countries with a network that services a global customer base spread across 6 continents. The Shandong Ruyi Group has over 30 subsidiaries in over 15 countries, with four listed subsidiaries, with a combined market capitalisation of over \$3 billion, in China, Japan, France and Hong Kong, being Shandong Ruyi Woolen Garment Group Co., Limited, Renown Inc., SMCP SAS and Trinity Limited respectively.

On October 9th 2018, the proposed investment by Shandong Ruyi was approved by shareholders. Following this, on December 31st 2018, it was announced that a new unconditional date, of 31 May 2019, had been agreed by which Shandong Ruyi will have paid to Bagir the remaining cash payment of \$13.2m. All other conditions relating to the transaction have been completed.

Post year end Ruyi have agreed to provide the Company with suit jacket manufacturing equipment, with an estimated market value of \$1.3m, for exclusive and indefinite use in the Ethiopian manufacturing facility for nil consideration.

The Ethiopian facility has existing capacity to produce up to 3,500 suit trousers per day. The addition of the new manufacturing equipment will form the base of a new production line to manufacture suit jackets which, together with an additional investment of approximately \$1.5 million, will be capable of producing 500 suit jackets per day. The additional investment is expected to take place after the completion of the investment by Shandong Ruyi and the Company expects that the suit jacket line will be fully operative by the end of H1 2020. This will be the first stage of the Company's medium-term investment plans to increase the capacity of the Ethiopian facility to approximately 3,000 full suits per day using the remaining investment proceeds of \$13.2 million from Shandong Ruyi (following the \$3.3 million non-refundable payments already received by the Company).

In addition, Shandong Ruyi, an existing supplier of the Company, granted an extension of 90 days to their usual credit payment terms on the acquisition of up to 500,000 meters of wool and wool blend fabrics at market value. This extension to Shandong Ruyi's credit terms will last until 30 June 2019.

Board changes in 2018

Jonathan Feldman stepped down as a non-executive director with effect from the end of September 2018 and the Board reiterates its thanks to him for his contribution to Bagir over the last year.

The Board is in a process of recruiting a new non-executive external director.

Yehuda Cohen stepped down as a Chief Financial Officer, Deputy CEO and director, with effect from December 2018 and the Board reiterates its thanks to him for his contribution to Bagir over the last 7 years. Dotan Levy has taken on the role of interim CFO.

Outlook

2018 was undoubtedly a strategically important year for the business with significant progress being made rationalising the business operations. Looking ahead for 2019, trading conditions are likely to be similar to those experienced in 2018, however the Board believes that Bagir is well placed given the operational cost base reduction completed in 2018 and its strong order backlog

Bagir will be working to complete the proposed investment with Shandong Ruyi and invest to realise the potential of our existing manufacturing bases, particularly in Ethiopia, so that Bagir is in a good position to be able to compete for key apparel manufacturing contracts globally.

Board of Directors



Tessa Rebecca Laws, Non-Executive Chairman (N)

Tessa is a lawyer, and specialises in corporate transactions in the media and renewable energy sectors. She was appointed to the Board in April 2014 and became Chairman in October 2015. Tessa has successfully established her own legal practice and consultancy and is a graduate of the London School of Economics and Cranfield School of Management.



Eran Itzhak Chief Executive Officer

Eran joined Bagir in 2011 and prior to his appointment as CEO, he held the role of Vice President of Business Development & Innovation. Eran has been integral to the establishment and the ongoing management of the Company's Ethiopian and Vietnamese manufacturing operations as well as the implementation of the Company's wider recovery plan and future strategy. In addition, Eran has been involved with identifying new business opportunities for the Company in Australia. Prior to joining Bagir, Eran practiced as a lawyer in Tel Aviv and he received his Master of Laws from The Hebrew University of Jerusalem in 2014.



Samuel Vlodinger Non-Executive Director (A) (R)

Samuel was appointed as a non-executive director of Bagir in April 2014 (prior to the IPO he was the Chairman of the Board). Samuel is Senior Partner at FIMI Private Equity, a leading private equity group in Israel. He is currently Chairman of Tadirgan Group Ltd, TAT Technologies, Raval ACS Ltd and Ginegar Plastic Ltd. Samuel has an Engineering degree from Technion Israeli Institute of Technology. Samuel Vlodinger is the Chairman of the Audit Committee and the Remuneration Committee.



Marc Zalcman Non-Executive Director

Marc was appointed as a non-executive director of Bagir in April 2014 (prior to the IPO he was a director of the Board). He has many years of experience in investment banking and mergers and acquisitions. He is a financial advisor to leading Israeli investment groups and a shareholder and board member of several companies.

Prior to his current activities, Marc was Vice President at the Giza Group (a leading investment bank), Real Estate Appraiser at Grinberg Olpinier-Shelef, and Senior Analyst at Giza Financial Advisory Services. Marc holds a BA in Economics, and a diploma in real estate appraisal and management both from the Tel Aviv University.



Esti Maoz Independent Non-Executive External Director (A) (R) (N)

Mrs. Esther (Esti) Maoz is a Corporate Senior Vice-President, Chief Marketing and Innovation Officer (CMO) of Delta Galil Industries LTD., the global manufacturer and marketer of private label and branded apparel products. Previously she was President of Delta Textiles, a US division for Delta Galil Industries LTD, and played a significant role in increasing their sales. Esther's career in textiles began in 1975 after studying Business Administration and Marketing from Haifa University, Israel.

A = member of the Audit Committee

R = member of the Remuneration Committee

N = member of the Nomination Committee

Directors' Report

The Directors are pleased to present their report together with the audited accounts of the Company and its subsidiaries for the year ended December 31, 2018.

1. Principal activities

Bagir Group is a global innovative tailoring provider which specialises in developing, manufacturing and marketing of high-quality men's and women's tailored fashions and workwear. Bagir Group leverages its global presence, vertical structure and innovation in order to provide consumers with the ultimate wearing experience combining fashion, comfort, performance and value.

The Company was founded in 1961. In April 2014 the Company completed an initial public offering ("IPO") and its shares were admitted to trading on the London Stock Exchange's AIM Market. In October and December 2016, the company completed a private placement in the amount of \$10.3m (before issuance expenses). In October 2018, the company's shareholders approved the proposed investment by Shandong Ruyi of \$16.5m. The Company has agreed a new unconditional completion date for the transaction of 31 May 2019 by which time Shandong Ruyi will pay the remaining cash payment of \$13.2 million (following the \$3.3 million non-refundable payments already received).

All other conditions relating to the transaction have been completed by Bagir.

2. Financial Review

The results for the year 2018 are discussed on pages 6-7 and the full financial statements are from page 23 onwards.

3. Review of business and future prospects

A review of the Company's activities during this period and a review of future prospects are contained in the Strategic Report set out on page 5.

4. Share Capital

Details of the issued share capital of the Company and movements during the year 2018 are set out on note 24 to the financial statements.

5. Directors

The following Directors held office on December 31, 2018:

Tessa Laws (Non-Executive Chairman), appointed in April 2014 as a director and Chairman since October 2015.

Eran Itzhak (Chief Executive Officer), appointed as director in November 2015.

Yehuda Cohen appointed as director in April 2014. Resigned with effect from March 2019.

Samuel Vlodinger (Non-Executive Director), appointed in April 2014.

Marc Zalcman (Non-Executive Director), appointed in April 2014.

Esti Maoz (Non-Executive External Director), appointed in February 2017.

Jonathan Feldman (Non-Executive External Director), appointed in June 2017. Resigned with effect from the end of September 2018.

Biographical details of the current Directors are set out on pages 10-11.

6. Directors' Interests

As of December 31, 2018:

Director	Number of ordinary shares	Number of ordinary shares under option	Percentage of issued share capital on a fully diluted basis
Tessa Laws	310,390	Nil	0.09%
Eran Itzhak	286,000	8,088,712***	2.45%
Yehuda Cohen	Nil	6,644,299***	1.95%
Samuel Vlodinger	633,533	128,175***	0.22%
Marc Zalcman**	Nil	Nil	Nil
Esther Maoz	Nil	Nil	Nil
Jonathan Feldman	Nil	Nil	Nil

As of December 31, 2017:

Director	Number of ordinary shares	Number of ordinary shares under option	Percentage of issued share capital on a fully diluted basis
Tessa Laws	310,390	Nil	0.09%
Eran Itzhak	286,000	8,088,712***	2.45%
Yehuda Cohen	Nil	6,644,299***	1.95%
Samuel Vlodinger*	633,533	128,175***	0.22%
Marc Zalcman**	Nil	Nil	Nil
Esther Maoz	Nil	Nil	Nil
Jonathan Feldman	Nil	Nil	Nil

* During 2017, following the repayment of a loan by Samuel Vlodinger, a Non-Executive Director of the Company, First Israel Mezzanine Investors Ltd ("FIMI") has returned 214,200 ordinary shares of 0.04 New Israeli Shekels each ("Ordinary Shares") held as security for the repayment of the loan to Mr. Vlodinger.

** Marc Zalcman, a Non-Executive Director of the Company, owns 100 per cent of the issued share capital of Man Capital Management Ltd. and Man Capital Holdings Ltd. that are interested in aggregate in 8,973,735 Ordinary Shares representing 2.89 per cent of the total voting rights of the Company.

*** The exercise price of the above options are as follows:

As of 2018 and 2017:

Eran Itzhak: 33,350 options at NIS 0.04 exercise price per share, 1,350,000 options that were granted in January 2016 at 0.035 GBP exercise price per share and 6,705,362 options at 0.035 GBP that were granted in October 2016.

Yehuda Cohen: 55,425 options at NIS 0.04 exercise price per share, 1,350,000 options that were granted in January 2016 at 0.035 GBP exercise price per share and 5,238,874 options at 0.035 GBP that were granted in October 2016

The vesting terms of the options that were granted to Eran Itzhak and Yehuda Cohen in January 2016 are as follow: 500,000 options will vest on 31 December 2016, another 500,000 options will vest on 31 December 2017 and the balance vest on 31 December 2018. These options are exercisable over 10 years from the grant.

The vesting terms of the options that were granted to Eran Itzhak and Yehuda Cohen in 2016 are to be based on certain stretch targets as follows:

25 per cent. On grant.

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.

These options will be exercisable at the price at the grant date (3.5p) and with a scheme length of 5 years.

7. Directors' remuneration

The total remuneration of the Board of directors for the year ended December 31, 2018 amounted to \$1.1m** (including the Chief Executive Officer and Chief Financial Officer) compared to \$1.2m in the year ended December 31, 2017.

For the year ended December 31, 2018:

Name	Salary/Director Fees	Pension and Benefits	Share based compensation	Total cost
Tessa Laws	99	Nil	Nil	99
Samuel Vlodinger	40	Nil	Nil	40
Marc Zalcman	39	Nil	Nil	39
Esther Maoz	40	Nil	Nil	40
Jonathan Feldman	30	Nil	Nil	30
Non-executive directors	248	Nil	Nil	248
Eran Itzhak	230	27	19	276
Yehuda Cohen**	320	23	16	359
Executive directors	550	50	35	635
Subtotal	798	50	35	883

** The executive directors' salary includes provisions for termination costs of \$124k.

For the year ended December 31, 2017:

Name	Salary/Director Fees	Pension and Benefits	Share based compensation	Total cost
Tessa Laws	97	Nil	Nil	97
Samuel Vlodinger	39	Nil	Nil	39
Marc Zalcman	39	Nil	Nil	39
Donald Stewart	12	Nil	Nil	12
Esther Maoz	34	Nil	Nil	34
Jonathan Feldman	23	Nil	Nil	23
Non-executive directors	244	Nil	Nil	244
Eran Itzhak*	350	28	32	409
Yehuda Cohen*	284	24	28	336
Executive directors	633	52	60	745
Subtotal	877	52	60	989

* The executive directors' salary includes provisions for bonuses

8. Substantial shareholders

As at December 31, 2018, the Company had been notified of the following interests in 3 percent or more of the issued ordinary share capital of the Company:

Name of significant shareholders	% of total issued shares
Barinboim Properties Ltd.*	21.06%
Miton Asset Management	16.44%
Hargreave Hale Limited	10.47%
The Phoenix Investments & Finance Ltd.	5.16%
AXA Investment Managers	4.95%
Bank Leumi	4.09%
City Financial Absolute Equity Fund	3.42%

* The interest by Barinboim properties consist of direct interest in 64,916,670 Ordinary Shares representing 20.9 per cent of the total voting rights, and indirect interest of 86 per cent of the issued share capital of S.G. Textile Holdings Ltd. that is interested in 573,750 Ordinary Shares representing 0.16 per cent of the total voting rights of the Company.

As at December 31, 2017, the Company had been notified of the following interests in 3 percent or more of the issued ordinary share capital of the Company:

Name of significant shareholders	% of total issued shares
Barinboim Properties Ltd.*	20.90%
Miton Asset Management	18.79%
Hargreave Hale Limited	13.81%
City Financial Absolute Equity Fund	7.60%
AXA Investment Managers	5.20%
The Phoenix Investments & Finance Ltd.	5.16%
he Phoenix	4.09%

* The interest by Barinboim properties consist of direct interest in 64,916,670 Ordinary Shares representing 20.9 per cent of the total voting rights, and indirect interest of 86 per cent of the issued share capital of S.G. Textile Holdings Ltd. that is interested in 573,750 Ordinary Shares representing 0.16 per cent of the total voting rights of the Company.

9. Principal Risks and Uncertainties

The Board has identified the following principal risks and uncertainties:

- The Company is dependent on the development of the market for tailored menswear product the success of its retail customers and the maintenance of its relationships with key customers. The tailored menswear market is competitive and sensitive to quality, fashion and price. The Company has competitors who seek to provide similar products. It seeks to mitigate this risk by efficiently providing superior quality products, which meet retailer and their customers' needs at competitive prices.

- The business is dependent on a number of third-party producers for the manufacture of its products. It seeks to mitigate this risk through effective partner selection and relationships, including collaboration on product quality, technical tailoring skills and quality control.
- The Company's customer base is concentrated on few large clients which generates a significant volume of the Company's total sales. There can be a significant business impact if a large customer switches to another vendor. However, the Company is constantly winning new customers and increasing the volume delivered to its existing customers which mitigates the potential impact of such an event.
- The Company's production facilities and supplier base is mainly in Developing World countries, which may from time to time experience some degree of the consequences of Geo-Political/Economic instability. However, the Company has considerable experience in managing these issues.

10. Annual General Meeting

The Company is planning to hold the next Annual General Meeting (AGM) in June 2019 at the Company's UK offices, when, among other things, the Annual Report and Accounts for 2018 will be put before the Shareholders. The notice of AGM will be sent to shareholders alongside the Annual Report.

11. Directors' Statement as to Disclosure of Information to Auditors

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

Corporate Governance Report

The Company complies with the applicable corporate governance requirements under the Israeli Companies Law.

As the Company's shares are traded on AIM, the Company is not required to comply with the UK Corporate Governance Code published by the Financial Reporting Council (the "Code"). The Board acknowledges the importance of high standards of corporate governance. To the extent practical and appropriate for its size and stage of development. The Company intends to take account of the requirements of the Code.

During 2018, the directors of Bagir Group plc decided to adopt the guidelines of the UK Quoted Companies Alliance Corporate Governance Code for its corporate governance.

On 8 March 2018, the London Stock Exchange issued AIM Notice 50, confirming changes to be made to the AIM Rules for Companies (and to the AIM Rules for Nominated Advisers). The revised AIM Rules came into effect on 30 March 2018.

The revised AIM Rules require that AIM companies to provide details on its website of:

- (i) the recognised corporate governance code that its board of directors has decided to apply;
- (ii) how the AIM Company complies with that code; and
- (iii) where it departs from its chosen corporate governance code, an explanation of the reasons for doing so.

Accordingly, the Board of Bagir Group decided at its board meeting on 2 July 2018, to continue the practice, and to adopt and comply with the QCA Corporate Governance Code (2018 edition) (the QCA Code). This report sets out in broad terms how the board currently complies with the QCA Code. The board will review Bagir's compliance with the QCA Code on an annual basis. The report was uploaded to the Company website.

1. Board composition, roles and independence

The Company's Board consists of five directors, four of whom are non-executive directors. Two of the non-executive directors are independent as defined by the UK Code and the Chairman was independent at appointment. One of the non-executive directors is an External Director, as defined by the Israeli Companies Law. Additional independent non-executive External in process of nomination, following former External Director that stepped down from the Board at the AGM on 4 September 2018. The Board have commenced a formal process to identify a suitable successor as Non-executive External Director as soon as possible.

The Board is responsible for reviewing and approving the Company's strategy, budget, corporate actions and major items of capital expenditure. The Board has established an audit committee, a remuneration committee and a nomination committee, with formally delegated duties and responsibilities and each with written terms of reference. The Audit Committees meets at least twice each year.

The roles of the Chairman and Chief Executive Officer have been separated and clearly defined.

Following Udi Choen stepping down from the Board, on 31 December 2018, Dotan Levy has been appointed acting CFO.

The Code recommends that the Board of directors of a listed company should include an appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) such that no individual or small group of individuals can dominate the board's decision taking. The Code states that the board should determine whether a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

The Board considers that all its non-executive directors and non-executive external directors bring an independent judgment in the consideration of the matters considered by the Board and commit the time necessary to fulfill their roles as demonstrated by their attendance of and contributions to Board meetings.

2. Board conduct

Meeting summary for the year 2018:

Board –

Board meetings Year 2018																	
Name of director	03/01		06/03	22/05	05/06	18/06	02/07	11/07	23/07	14/08	30/08	20/09	03/10	08/10	21/11	17/22	19/12
Samuel Vlodinger	+	+	+	+	+	+	+	+		+	+	+	+		+		+
Tessa Laws	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Marc Zalcman	+	+	+	+	+	+	+	+	+	+	+	+	+		+	+	+
Eran Itzhak	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Yehuda Cohen	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
Esther Maoz	+	+	+	+	+		+	+	+	+	+	+	+	+	+	+	+
Jonathan Feldman				+		+							NA	NA	NA	NA	NA

Audit committee –

Audit Committee Year 2018			
Name of director	18/01	06/03	20/09
Samuel Vlodinger	+	+	+
Esther Maoz	+	+	+
Jonathan Feldman			

Remuneration Committee-

Remuneration Committee Year 2018	
Name of director	30/08
Samuel Vlodinger	+
Esther Maoz	+

3. Internal control

The Board has overall responsibility for the Company's internal control and effectiveness in safeguarding the assets of the Company. Internal control systems are designed to reflect the particular type of business and operations risks and to identify and manage risks, but not entirely all risks to which the business is exposed. As a result, internal controls can only provide a reasonable, but not absolute, assurance against material misstatements or loss.

The processes used by the Board to review the effectiveness of the internal controls are through the audit committee and the executive management reporting to the Board on a regular basis, where business plans, budgets and authorisation limits for the approval of significant expenditure, including investments, are appraised and agreed.

The Board also seeks to ensure that there is a proper organisational and management structure across the Company with clear responsibilities and accountability. The Board is also at liberty to engage independent professional advice on risk assessment matters.

4. Audit Committee

The Audit Committee is comprised of Esti Maoz and Samuel Vlodinger and chaired by Esti Maoz. Jonathan Feldman who has now resigned from the Board was also previously a member of the Audit Committee.

The Audit Committee has the primary responsibility for monitoring the quality of internal controls to ensure that the financial performance of the Company is properly measured and reported on. The Audit Committee, inter alia, determines and examines matters relating to the financial affairs of the Company including the terms of engagement of the Company's Auditors and, in consultation with the Auditors, the scope of the audit. It receives and reviews reports from management and the Company's Auditors relating to the half yearly and annual accounts and the accounting and the internal control systems in use throughout the Company. The audit committee has unrestricted access to the Company's external auditors.

5. Remuneration Committee

The Remuneration Committee is comprised of Esti Maoz and Samuel Vlodiner and chaired by Esti Maoz. Jonathan Feldman who has now resigned from the Board was also previously a member of the Remuneration Committee.

The Remuneration Committee reviews the performance of the executive Directors and makes recommendations to the Board in respect of the Directors' remuneration and benefits packages, including share options and the terms of their appointment. The Remuneration Committee also makes recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any employee share option scheme or equity incentive plans in operation from time to time. In exercising this role, the Directors shall have regard to the recommendations put forward in the Corporate Governance Code.

6. Nomination Committee

The Nomination Committee is comprised of Esti Maoz and Tessa Laws and is chaired by Tessa Laws. Jonathan Feldman who has now resigned from the Board was also previously a member of the Nomination Committee.

The Nomination Committee has responsibility for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and giving full consideration to succession planning. The Nomination Committee also has responsibility for recommending new appointments to the Board and to the other Board committees. It is responsible for identifying suitable candidates for Board membership and monitoring the performance and suitability of the current Board on an on-going basis.

7. Internal Audit

Under the Israeli Companies Law, the board of directors of a public company must appoint an internal auditor proposed by the Audit Committee. The role of the internal auditor is to examine whether such public company's actions comply with the law, integrity and orderly business procedure. The internal auditor must not be an interested party or office holder, or a relative of any interested party or office holder, or a member or representative of the Company's external auditors. The Israeli Companies Law defines the term "interested party" for such purposes so as to include a person who holds five per cent or more of the Company's outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager or any person who serves as a director or as the general manager.

The Company's internal auditor is a certified accountant, nominated by the Audit Committee and approved by the Board. The internal auditor is invited to attend every meeting of the audit committee.

Following the Admission, Dana Gottesman-Erich, C.P.A (Isr.) of BDO Consulting Group was nominated to be the Company's Internal Auditor.

In accordance with the audit plan for 2018, during 2018 the Internal Auditor conducted an internal audit on Budget and Forecast. The findings and recommendations of the auditor for the first two topics were presented to the Audit Committee and to the Board.

Additionally, during the fourth quarter of 2018 and the first quarter of 2019, the Internal Auditor conducted an internal audit on Engagement with subcontractor and Material Planning. The findings and recommendations of the are expected to be presented to the Audit Committee and to the Board.



Independent Auditor's Report and Financial Statements 2018

For the year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

To The Shareholders and Board of Directors
Bagir Group Ltd.

Opinion

We have audited the consolidated financial statements of Bagir Group Ltd. (the Company) and its subsidiaries (collectively, the Group), which comprise the consolidated statements of financial position as of 31 December 2018 and 2017, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2018 and 2017, and its financial performance and its cash flows for each of the years then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Israel prescribed by the Auditor Regulations (Conflict of Interests and Impairment of Independence Resulting from Another Occupation) 2008, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the key matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Description of key audit matter in 2018 and why a matter of most significance in the audit

Goodwill– impairment test

As of 31 December 2018, the total carrying amount of goodwill, is approximately USD 5.8 million. In accordance with IFRS as adopted by the European Union, the Group is required to annually test goodwill for impairment. This impairment test was significant to our audit because the assessment process is complex and judgmental and based on assumptions that are affected by expected future market or economic conditions.

How our audit addressed the matter

Our audit procedures included evaluating the assumptions and methodologies used by the Group. In particular, we assessed the rationale for using the committed transaction in the Company's shares as the basis for the determination of the recoverability of the goodwill as described in Note 14c. We also assessed the recoverability of the goodwill by reviewing management's forecasts of revenues and profitability. We evaluated and tested the reasonableness of the discount rate used. We also verified the adequacy of the disclosure of the assumptions and other data in Note 14c to the consolidated financial statements.

Going concern and liquidity risk

We identified the assessment of the going concern basis of accounting performed by the management of the Group as a key audit matter. The Group has prepared a cash flow forecast which involves judgments and estimations based on management's input of key variables and market conditions including the future economic conditions. The cash flow forecast has been determined using estimations of future cash flows based on projected income and expenses of the business and working capital needs.

As discussed in Note 1d to the consolidated financial statements, the Group believes it has sufficient liquidity based on the cash and cash equivalents as of 31 December 2018, and the expected cash to be generated from operations to meet its financial obligations as they fall due for at least the twelve months following the date of approval of the consolidated financial statements.

How our audit addressed the matter

Our audit procedures included, among others, testing the reasonableness of the inputs and assumptions used in the cash flow forecast against historical performance, the Group's backlog, economic and industry indicators, and the Group's strategic plans, challenging the key assumptions including those affecting the revenue growth and gross margin, and the timing of significant payments in the cash flow forecast for the following twelve months.

Other information included in the Company's 2018 Annual Report

Other information consists of the information included in the Company's 2018 Annual Report other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and the board of directors for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we have exercised professional judgment and have maintained professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditors' report is Mr. Albert Perez.

Beer Sheva, Israel
3 April 2019

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		31 December	
		2018	2017
	Note	U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	7	3,061	2,604
Short-term deposits	8	127	132
Trade receivables	9	9,141	3,203
Other receivables	10	3,510	2,981
Inventories	11	8,866	6,709
		24,705	15,629
NON-CURRENT ASSETS:			
Finance lease receivable	12	406	28
Property, plant and equipment	13	9,509	8,721
Goodwill	14	5,775	5,775
Other intangible assets	14	2,114	2,722
Deferred taxes	26	132	181
		17,936	17,427
		42,641	33,056

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		31 December	
		2018	2017
	Note	U.S. dollars in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term credit and current maturities of long-term loan from bank	15	9,995	2,294
Trade payables	16	7,794	4,933
Other payables	17	4,742	4,073
		22,531	11,300
NON-CURRENT LIABILITIES:			
Loan from bank	18	476	-
Employee benefit liabilities, net	19	298	281
Payable for acquisition of subsidiary	20	1,646	2,154
Lease liabilities	21	1,557	580
Deferred taxes	26	1,147	1,128
		5,124	4,143
EQUITY:			
Share capital	24	3,284	3,284
Share premium		86,322	86,322
Capital reserve for share-based payment transactions		1,825	1,741
Capital reserve for transactions with shareholders		10,165	10,165
Adjustments arising from translation of foreign operations		(9,624)	(9,624)
Receipts on account of shares		3,136	-
Reserve from transactions with non-controlling interests		438	-
Accumulated deficit		(82,068)	(76,221)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Non-controlling interests		1,508	1,946
<u>Total equity</u>		14,986	17,613
		42,641	33,056

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

3 April 2019			
Date of approval of the financial statements	Tessa Rebecca Laws Chairman of the Board	Eran Itzhak CEO and Director	Dotan Levy CFO

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

		Year ended 31 December	
		2018	2017
	Note	U.S. dollars in thousands	
Revenues from sales	25a	56,413	51,091
Cost of sales	25b	50,894	43,450
Gross profit		5,519	7,641
Selling and marketing expenses	25c	4,763	5,026
General and administrative expenses	25d	2,608	3,299
Development costs	25e	800	847
Other income	6	-	(1,223)
Other expenses	25f	1,103	291
Operating loss		(3,755)	(599)
Finance income	25g	20	10
Finance expenses	25h	(2,040)	(2,132)
Company's share of losses of a joint venture		-	(184)
Loss before taxes on income		(5,775)	(2,905)
Tax expense	26	(72)	(123)
Loss for the year (all attributable to equity holders of the Company)		(5,847)	(3,028)
Other comprehensive income (loss):			
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)
<u>Items not to be reclassified to profit or loss in subsequent periods:</u>			
Remeasurement gain on defined benefit plans		-	11
Total other comprehensive loss		-	(718)
<u>Total comprehensive loss</u>		<u>(5,847)</u>	<u>(3,746)</u>
Loss attributable to equity holders of the Company		<u>(5,847)</u>	<u>(3,028)</u>
Total comprehensive loss attributable to equity holders of the Company		<u>(5,847)</u>	<u>(3,746)</u>

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

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

	<u>Note</u>	Year ended 31 December	
		2018	2017
		U.S. dollars (except share and per share data)	
Loss per share attributable to equity holders of the Company (in dollars)	29		
Basic and diluted loss per share		<u>(0.02)</u>	<u>(0.01)</u>
Weighted average number of Ordinary shares for basic and diluted loss per share (in thousands)		<u>310,543</u>	<u>310,543</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with shareholders	Reserve from transaction with non-controlling interests	Adjustments arising from translation of foreign operations	Receipts on account of shares	Accumulated deficit	Total	
	U.S. dollars in thousands									
Balance at 1 January 2017	3,284	86,306	1,580	10,165	-	(8,895)	-	(73,204)	19,236	21,182
Loss for the year	-	-	-	-	-	-	-	(3,028)	(3,028)	(3,028)
Other comprehensive income (loss):										
Adjustment arising from translation of foreign operation	-	-	-	-	-	(729)	-	-	(729)	(729)
Remeasurement gain on defined benefit plans	-	-	-	-	-	-	-	11	11	11
Total comprehensive loss	-	-	-	-	-	(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	17,613
Loss and other comprehensive loss for the year	-	-	-	-	-	-	-	(5,847)	(5,847)	(5,847)
Advance payment in respect of share-capital issuance, net of related expenses (Note 1d)	-	-	-	-	-	-	3,136	-	3,136	3,136
Reduction of non-controlling interests (Note 5)	-	-	-	-	438	-	-	-	438	-
Cost of share-based payment	-	-	84	-	-	-	-	-	84	84
Balance at 31 December 2018	3,284	86,322	1,825	10,165	438	(9,624)	3,136	(82,068)	13,478	14,986

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2018	2017
	U.S. dollars in thousands	
<u>Cash flows from operating activities:</u>		
Loss	(5,847)	(3,028)
Adjustments to reconcile loss to net cash 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
Depreciation and amortization	1,602	1,926
Deferred taxes, net	68	173
Change in employee benefit liabilities	17	86
Cost of share-based payment	84	177
Loss from sale of property, plant and equipment and other assets	7	121
Finance expenses, net	1,859	1,515
Tax expense (income tax benefit), net	4	(50)
Exchange differences on intercompany current account	-	157
	3,641	3,066
Changes in asset and liability items:		
Decrease (increase) in trade receivables	(3,870)	799
Increase in other receivables	(547)	(710)
Increase in inventories	(2,157)	(1,398)
Increase in trade payables	2,861	915
Increase (decrease) in other payables	646	(1,193)
	(3,067)	(1,587)
Cash paid during the year for:		
Interest paid	(1,397)	(1,090)
Interest received	-	8
Taxes paid	(4)	(298)
Taxes received	-	5
	(1,401)	(1,375)
Net cash used in operating activities	(6,674)	(2,924)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended	
	31 December	
	2018	2017
	U.S. dollars in thousands	
<u>Cash flows from investing activities:</u>		
Acquisition of initially consolidated subsidiary (a)	-	(1,811)
Investment in joint venture	-	(1,169)
Purchase of property, plant and equipment	(672)	(892)
Addition to intangible assets	(29)	-
Collection of finance lease receivable	86	83
Purchase of short-term investments, net	-	(51)
Net cash used in investing activities	(615)	(3,840)
<u>Cash flows from financing activities:</u>		
Repayment of lease liabilities	(710)	(720)
Receipt of short-term credit from others	5,432	2,280
Receipt of long-term loan from bank, net	688	-
Receipts on account of shares, net of related expenses	3,136	-
Payment of liability for acquisition of subsidiary	(800)	(800)
Net cash provided by financing activities	7,746	760
Exchange differences on balances of cash and cash equivalents of foreign operation	-	(16)
Increase (decrease) in cash and cash equivalents	457	(6,020)
Cash and cash equivalents at the beginning of the year	2,604	8,624
Cash and cash equivalents at the end of the year	3,061	2,604
a) <u>Acquisition of initially consolidated subsidiary:</u>		
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) <u>Significant non-cash transactions:</u>		
Waiver of receivable from partner in joint venture (see Note 6)	-	672

The accompanying notes are an integral part of the 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'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 by 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.
- 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. 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.
- d. In the year ended 31 December 2018, the Group incurred an operating loss of \$3.8 million and had negative cash flows from operating activities of \$6.7 million. In order to address the above circumstances, the Group has undertaken a rationalization of its operations, focussing on fewer production sites and a reduction in the Group's operational cost base.

The Board of Directors has considered the principal risks and uncertainties of the business, the trading forecasts prepared by management (including the projected effects of the remedial actions described above) 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 Group believes it has sufficient liquidity based on the cash and cash equivalents as of 31 December 2018, and the expected cash to be generated from operations to meet its financial obligations as they fall due for at least the twelve months following the date of approval of the consolidated financial statements. Accordingly, the Board of Directors has concluded that it is appropriate to apply the going concern basis of accounting in preparing the consolidated financial statements.

- e. In November 2017, the Company signed a strategic Share Purchase Agreement with a global textile manufacturer, Shandong Ruyi Technology Group Co., Ltd (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 359,560,310 Ordinary shares that will represent 54% (fully diluted- 51%) of the Company's enlarged issued share capital. The price per Ordinary share is approximately 3.5 pence per share.

The transaction was subject to, among others, the approval of the Company's shareholders and to the completion of various Chinese foreign exchange and other regulatory requirements by the date of closing.

Pursuant to the agreement, in January 2018 the Company received from the Investor a down payment of \$1.65 million, which according to the purchase agreement is non-refundable in the event that the Investor fails to secure Chinese regulatory consent. In July 2018 the Company received an additional down payment of \$1.65 million which Group management has determined based, among others, on the opinion of its attorneys, that this down payment is also non-refundable in the event that the Investor fails to secure regulatory consent. The down payments in the aggregate amount of \$ 3.3 million have been recorded in equity (net of expenses of \$ 0.2 million) as receipts on account of shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL (Cont.)

On 3 September 2018, after receiving the required information from the Investor for publication of a circular to the Company's shareholders and to convene an Extraordinary General Meeting for the approval of the transaction, the Company published the circular to its shareholders. An Extraordinary General Meeting was held on 9 October 2018 in which the shareholders approved the transaction.

The Investor informed the Company that additional time is necessary to receive Chinese Government approval for the investment in the Company. As a consequence, the Company has agreed a new unconditional completion date for the transaction of 30 May 2019 by which time the Investor is required to pay the remaining cash balance of \$ 13.2 million. All other conditions relating to the transaction have been completed by Bagir.

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.

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

b. Consolidated financial statements:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

Commencing 1 January 2018, the subsidiary in Ethiopia changed its functional currency from Ethiopian Birr to United States Dollars (USD). Management's decision to change the functional currency was based on the following considerations:

- All of the subsidiary's sales are presently export sales and the sales prices are denominated and settled in USD;
- The subsidiary imports most of its raw materials and these costs are mostly denominated in and settled in USD; and
- Part of the funds received by the subsidiary from financing activities is denominated in USD.

As of 1 January 2018, the functional currency of all of the entities in the Group is the U.S. dollar.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- e. Functional currency, presentation currency and foreign currency: (Cont.)

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 2018	1.14	0.26
31 December 2017	1.35	0.28
Change	%	%
Year ended 31 December 2018	(18.42)	(0.52)
Year ended 31 December 2017	10	0.07

- 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 (accounting policy until 31 December 2017):

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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:

As detailed in Note 2 (v) regarding the initial adoption of IFRS 9, "Financial Instruments" ("the Standard"), the Company elected to adopt the provisions of the Standard retrospectively without restatement of comparative data.

The accounting policy for financial instruments applied until 31 December 31 2017 is as follows:

1. Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs.

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

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 plus directly attributable 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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Financial instruments: (Cont.)

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 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Financial instruments: (Cont.)

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.

The accounting policy for financial instruments applied commencing from 1 January 2018 is as follows:

1. Financial assets:

Financial assets are measured upon initial recognition at fair value plus transaction costs that are directly attributed to the acquisition of the financial asset, excluding financial assets that are measured at fair value through profit or loss whereby the transaction costs are carried to profit or loss.

The Company classifies and measures debt instruments in the financial statements based on the following criteria:

- The Company's business model for managing financial assets; and
- The contractual cash flow terms of the financial asset.

Debt instruments are measured at amortized cost when the following criteria are met:

The Company's business model consists of holding the financial assets for collecting contractual cash flows therefrom; and the contractual cash flow terms of the financial asset provide entitlement to cash flows which only include principal payments and interest on the unpaid principal on predetermined dates. After initial recognition, the instruments in this category are presented according to their terms at amortized cost using the effective interest rate method and less any provision for impairment.

Moreover, on the date of initial recognition, an entity may decide, with no right of recourse, to change the classification of a debt instrument to be measured at fair value through profit or loss if such classification eliminates or significantly minimizes measurement or recognition inconsistencies such as when the underlying financial liabilities are also measured at fair value through profit or loss.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Financial instruments: (Cont.)

2. Impairment of financial assets:

The Company reviews at the end of each reporting period the provision for loss of financial debt instruments which are measured at amortized cost. The Company has short-term financial assets, such as trade receivables and finance lease receivables, in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.

An impairment loss on debt instruments measured at amortized cost is recognized in profit or loss with a corresponding loss allowance that is offset from the carrying amount of the financial asset.

3. Derecognition of financial assets:

A financial asset is only derecognized when the following criteria are met:

- The contractual rights to the cash flows from the financial asset has expired; or
- The Company has transferred substantially all the risks and rewards deriving from the contractual rights to receive cash flows from the financial asset or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset; or
- The Company has retained its contractual rights to receive cash flows from the financial asset but has assumed a contractual obligation to pay the cash flows in full without material delay to a third party.

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

4. Financial liabilities:

Financial liabilities measured at amortized cost:

Financial liabilities are initially recognized at fair value less transaction costs that are directly attributable to the issue of the financial liability.

After initial recognition, the Company measures all financial liabilities at amortized cost using the effective interest rate method.

5. Derecognition of financial liabilities:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**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.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

1. Leases:

The Group applies IFRS 16, "Leases", commencing from 1 January 2017:

a. The Group as lessee

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.

b. Subleases:

In a transaction in which the Company is a lessee of an underlying asset (head lease) and the asset is subleased to a third party, the Company assesses whether the risks and rewards incidental to ownership of the right-of-use asset have been transferred to the sub-lessee, among others, by evaluating the sublease term with reference to the useful life of the right-of-use asset arising from the head lease.

When substantially all the risks and rewards incidental to ownership of the right-of-use asset have been transferred to the sub-lessee, the Company accounts for the sublease as a finance lease, otherwise it is accounted for as an operating lease.

On the commencement date of a finance lease, the leased asset is derecognized and an asset, finance lease receivable, is recognized. This asset is equal to the present value of the lease payments, discounted at the interest rate implicit in the lease. Any difference between the carrying amount of the leased asset before derecognition and the net investment in the lease is recognized in profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

n. Intangible assets: (Cont.)

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)	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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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. 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:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

p. Taxes on income: (Cont.)

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 27. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Revenue recognition:

In conjunction with the early adoption of IFRS 16, the Group elected to early adopt 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 amount of the consideration that is expected to be received based on the contract terms, taking into consideration any discounts and significant financing component.

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 control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

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 - initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

1. Initial adoption of IFRS 9, "Financial Instruments":

In July 2014, the IASB issued the final and complete version of IFRS 9, "Financial Instruments" ("the new Standard"), which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new Standard mainly focuses on the classification and measurement of financial assets and it applies to all assets within the scope of IAS 39.

The new Standard has been applied for the first time in these financial statements retrospectively without restatement of comparative data.

The adoption of the new Standard did not have a material impact on the consolidated financial statements.

NOTE 3:- SIGNIFICANT ESTIMATES AND ASSUMPTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

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

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

Impairment of goodwill:

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. See Note 14 for additional details.

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

The following are new standards that have been issued but are not yet effective and which might have an impact on the financial statements:

a. IFRIC 23, "Uncertainty over Income Tax Treatments":

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the rules of recognition and measurement of assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement to reflect uncertainty involving income taxes in the financial statements and accounting for changes in facts and circumstances underlying the uncertainty.

The Interpretation is to be applied in financial statements for annual periods beginning on 1 January 2019. Early adoption is permitted. Upon initial adoption, the Company will apply the Interpretation using one of two approaches:

- (i) Full retrospective adoption, without restating comparative data, by recording the cumulative effect through the date of initial adoption in the opening balance of retained earnings.
- (ii) Full retrospective adoption including restatement of comparative data.

The Company does not expect the Interpretation to have any material effect on the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION (Cont.)

b. Annual Improvements to IFRS Cycle for 2015-2017:

In December 2017, the IASB issued amendments to the following standards in the context of the Annual Improvements to IFRS 2015-2017 Cycle:

<u>IFRS</u>	<u>Subject of amendment</u>
IFRS 3	The amendment clarifies that when an entity obtains control of a business that is a joint operation (as defined in IFRS 3), it remeasures previously held interests in that business at fair value.
IFRS 11	The amendment clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
IAS 12	The amendment clarifies that all income tax consequences of payment of dividends should be recognized in profit or loss, other comprehensive income or equity, based on the classification of the transaction or event which created the distributable profits.
IAS 23	The amendment clarifies that borrowings made specifically for the purpose of constructing a qualifying asset will be classified for the purpose of capitalization of borrowing costs to qualifying assets as funds that an entity borrows generally when the underlying qualifying asset is ready for its intended use or sale and some of the specific borrowing related to that qualifying asset remains outstanding at that point.

The amendments will be applied for annual periods beginning on 1 January 2019. Each amendment may be early adopted separately by providing the appropriate disclosures.

The Company estimates that the above amendments are not expected to have a material impact on the financial statements.

c. IFRS 3, "Business Combinations":

In October 2018, the IASB issued an amendment to the definition of a "business" in IFRS 3, "Business Combinations" ("the Amendment"). The Amendment is intended to assist entities in determining whether a transaction should be accounted for as a business combination or as an acquisition of an asset.

The Amendment consists of the following:

1. Clarification that to meet the definition of a business, an integrated set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output.
2. Removal of the reference to the assessment whether market participants are capable of acquiring the business and continuing to operate it and produce outputs by integrating the business with their own inputs and processes.
3. Introduction of additional guidance and examples to assist entities in assessing whether the acquired processes are substantive.
4. Narrowing the definitions of "outputs" and "business" by focusing on goods and services provided to customers.
5. Introducing an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The Amendment is to be applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, with earlier application permitted.

NOTE 5:- 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 for certain payments as described in the agreement. 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 thousands. 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 thousands that is amortized over the term of the agreement (7 years) (see also Note 20).

In August 2018, the Company signed an appendix to the shareholders' agreement with the Egyptian partner. The parties agreed that upon termination of the shareholders' agreement in 2022 the minimum shareholders' equity of the Egyptian subsidiary will be approximately \$3 million. As a result, in the year ended 31 December 2018, the Group recorded a reduction of the non-controlling interests in equity of approximately \$438 thousands and a corresponding increase in equity attributable to equity holders of the Company.

In August 2018, the Company signed a subcontractor agreement with a manufacturer in Egypt, which is controlled by the Egyptian partner of the Company's subsidiary in Egypt, according to which the Company is obligated to purchase certain minimum quantities of trousers and jackets at fixed prices over a period of four years ending in July 2022 to support the Group's ability to fulfill volume orders from the USA from this duty free country, supporting the USA market growth strategy. The total estimated commitment according to the agreement is \$3.3 million per year.

NOTE 6:- BUSINESS COMBINATION

The Company held 50% of the shares of Nazareth Garment Share Company ("NGSC") which, up to the acquisition of the remaining 50% and the beginning of consolidation, was treated as an investment in a joint venture. NGSC is engaged in manufacturing tailored clothing in Ethiopia.

In January 2017, the Company signed an agreement to acquire the remaining 50% of the 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.

As of 31 December 2017, the Company has recognized the fair value of the assets acquired and liabilities assumed in the business combination according to a final valuation by an external valuation specialist of the identifiable assets acquired and liabilities assumed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6:- BUSINESS COMBINATIONS (Cont.)

The fair values of the identifiable assets and liabilities of NGSC on the acquisition date:

	U.S. dollars in thousands
Cash and cash equivalents	89
Trade receivables	45
Other receivables	22
Inventories	44
Property, plant and equipment	7,472
Trade and other payables	(1,333)
Deferred tax liability	(1,295)
Goodwill	100
Total fair value of net identifiable assets	5,144
Gain from remeasurement to fair value of previous investment in the joint venture	(1,223)
Carrying amount of investment in the joint venture	(1,349)
Purchase price	2,572

The deferred tax liability comprises the tax effect of the fair value adjustments of the identifiable assets and liabilities.

Purchase consideration:

	U.S. dollars in thousands
Cash paid	1,900
Waiver of receivable due from the partner in the joint venture	672
Total consideration	2,572

Acquisition costs that are directly attributable to the transaction of approximately \$ 59 thousands were recorded as an expense in other expenses, net.

Cash flow on the acquisition:

	U.S. dollars in thousands
Cash and cash equivalents acquired	89
Cash paid	(1,900)
Net cash outflow	(1,811)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7:- CASH AND CASH EQUIVALENTS

	31 December	
	2018	2017
	U.S. dollars in thousands	
Cash in banks:		
In U.S. dollars	2,651	2,387
In Sterling	44	8
In other currencies	366	209
	<u>3,061</u>	<u>2,604</u>

NOTE 8:- SHORT-TERM DEPOSITS

	Annual interest rate *)	31 December	
		2018	2017
		U.S. dollars in thousands	
	%		
In U.S. dollars	0.08	60	60
In New Israeli Shekel (NIS)	0.2	67	72
		<u>127</u>	<u>132</u>

*) The above interest rates are the weighted average rates as of 31 December 2018.

NOTE 9:- TRADE RECEIVABLES

	31 December	
	2018	2017
	U.S. dollars in thousands	
Open accounts *)	9,169	3,227
Less - allowance for doubtful accounts **)	(28)	(24)
	<u>9,141</u>	<u>3,203</u>

*) 2017- the balance of \$3,227 is net of receivables in the amount of \$2,068 that were derecognized in their entirety due to non-recourse factoring arrangements.
2018 - Receivables in the amount of \$8,075 (2017- \$1,706) are pledged as security for short-term financing under factoring arrangements that do not meet the criteria for derecognition. See Note 15.

**) 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			
		< 30 days	30 - 60 days	60 - 90 days	Over 90 days
		U.S. dollars in thousands			
31 December 2018	7,693	1,424	10	12	2
31 December 2017	3,185	-	7	1	10

See Note 23 for credit risk of trade receivables and Note 25 for revenues from sales to major customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10:- OTHER RECEIVABLES

	31 December	
	2018	2017
	U.S. dollars in thousands	
Prepaid expenses	269	316
Government authorities	1,212	772
Advances to suppliers	1,683	1,571
Other receivables *)	346	322
	<u>3,510</u>	<u>2,981</u>

*) Includes finance lease receivable of \$ 64 thousands in respect of sublease of office space in the U.S (2017-\$77 thousands), see Note 12.

NOTE 11:- INVENTORIES

	31 December	
	2018	2017
	U.S. dollars in thousands	
Finished products	1,227	1,438
Work in progress	970	584
Raw and auxiliary materials	2,855	2,752
Parts	292	239
Inventories in transit	3,522	1,696
	<u>8,866</u>	<u>6,709</u>

Write down of inventories recorded in cost of sales totaled \$ 224 thousands (2017- \$ 451 thousands).

2018 - Inventory in the amount of \$3,039 thousands is pledged as security for short-term factoring arrangements, see Note 15.

NOTE 12:- FINANCE LEASE RECEIVABLE

a. Composition:

	31 December	
	2018	2017
	U.S. dollars in thousands	
Total	470	105
Less – current maturities	64	77
	<u>406</u>	<u>28</u>

The finance lease receivable is in respect of a sublease of office space in the U.S, see Note 21 (a) (2). The finance lease receivable as of 31 December 2018 and 2017 is neither past due nor impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12:- FINANCE LEASE RECEIVABLE (Cont.)

b. Movement in net investment in the lease:

	U.S. dollars in thousands
Balance at January 1, 2018	105
New leases	439
Lease payments received	79
Finance income	5
	<u>470</u>
Balance at December 31, 2018	<u>470</u>
Presented in the financial statements as finance lease receivables:	
In current assets	<u>64</u>
In non-current assets	<u>406</u>

c. Maturity analysis of undiscounted lease payments receivable for finance leases:

	U.S. dollars in thousands
First year	100
Second year	110
Third year	111
Fourth year	114
Fifth year	117
Sixth year and thereafter	39
	<u>591</u>
Unearned finance income (discount component)	<u>(121)</u>
Net investment in the lease	<u>470</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

	Land and buildings (3)	Machinery and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Right of use leased assets (4)	Total
2018:							
	U.S. dollars in thousands						
Cost (1):							
Balance at 1 January 2018	5,310	9,247	86	1,204	929	1,615	18,391
Additions during the year	-	517	-	87	39	1,117	1,760
Disposals during the year	-	(7)	-	(3)	-	(191)	(201)
Balance at 31 December 2018	5,310	9,757	86	1,288	968	2,541	19,950
Accumulated depreciation:							
Balance at 1 January 2018	28	7,118	65	1,094	804	561	9,670
Additions during the years	58	227	4	78	47	551	965
Disposals during the year	-	(7)	-	(2)	-	(185)	(194)
Balance at 31 December 2018	86	7,338	69	1,170	851	927	10,441
Depreciated cost at 31 December 2018	5,224	2,419	17	118	117	1,614	9,509
2017:							
	U.S. dollars in thousands						
Cost (1):							
Balance at 1 January 2017	-	7,585	77	1,213	1,021	-	9,896
Consolidation of subsidiary (1)	6,145	1,268	22	37	-	-	7,472
Additions during the year	16	663	-	68	145	1,615	2,507
Exchange differences	(851)	(187)	(3)	(7)	-	-	(1,048)
Disposals during the year	-	(82)	(10)	(107)	(237)	-	(436)
Balance at 31 December 2017	5,310	9,247	86	1,204	929	1,615	18,391
Accumulated depreciation:							
Balance at 1 January 2017	-	7,041	70	1,134	983	-	9,228
Additions during the years	33	161	5	64	48	561	872
Exchange differences	(5)	(13)	-	-	-	-	(18)
Disposals during the year	-	(71)	(10)	(104)	(227)	-	(412)
Balance at 31 December 2017	28	7,118	65	1,094	804	561	9,670
Depreciated cost at 31 December 2017	5,282	2,129	21	110	125	1,054	8,721

(1) See Note 6.

(2) 2018 - Fully depreciated assets that are still in use amount to approximately \$8.4 million (2017- \$ 8.1 million). Liens, see Note 18b.

(3) Including non-depreciable land in the amount of \$ 4.2 million.

(4) Rights of use leased assets composition:

	31 December	
	2018	2017
	U.S. dollars in thousands	
Production plant	869	580
Offices	575	190
vehicles	170	284
	1,614	1,054

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- GOODWILL AND OTHER INTANGIBLE ASSETS

a. Composition and movement:

	Software	Customer relationships	Development costs - novel products	Controlling rights (1)	Goodwill	Total
	U.S. dollars in thousands					
2018:						
Cost:						
Balance at 1 January 2018	462	8,487	6,052	3,446	25,533	43,980
Additions during the year	29	-	-	-	-	29
Balance at 31 December 2018	491	8,487	6,052	3,446	25,533	44,009
Accumulated amortization and impairment:						
Balance at 1 January 2018	98	8,487	5,908	1,232	19,758	35,483
Amortization recognized during the period	52	-	93	492	-	637
Balance at 31 December 2018	150	8,487	6,001	1,724	19,758	36,120
Net book value:						
At 31 December 2018	341	-	51	1,722	5,775	7,889
2017:						
Cost:						
Balance at 1 January 2017	583	8,487	6,052	3,446	25,447	44,015
Consolidation of subsidiary (2)	-	-	-	-	100	100
Exchange differences	-	-	-	-	(14)	(14)
Disposals during the year	(121)	-	-	-	-	(121)
Balance at 31 December 2017	462	8,487	6,052	3,446	25,533	43,980
Accumulated amortization and impairment:						
Balance at 1 January 2017	60	8,064	5,832	739	19,758	34,453
Amortization recognized during the period	62	423	76	493	-	1,054
Disposals during the year	(24)	-	-	-	-	(24)
Balance at 31 December 2017	98	8,487	5,908	1,232	19,758	35,483
Net book value:						
At 31 December 2017	364	-	144	2,214	5,775	8,497

(1) See Note 5.

(2) See Note 6.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14:- GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

- b. Classification of amortization expenses and impairment loss in profit or loss:

	Year ended 31 December	
	2018	2017
	U.S. dollars in thousands	
Cost of sales	543	569
Selling and marketing expenses	-	423
General and administrative expenses	52	62
Other expenses	42	-
Total	637	1,054

- c. Impairment testing of goodwill:

The Group management views the entire Group as a single cash generating entity (CGU) which serves as the basis for Group management's assessment of performance and operational decisions. Accordingly, the goodwill relates to the entire Group's activities for purposes of testing of impairment.

The recoverable amount of the Group CGU was determined based on its fair value less costs of disposal. The Company received a valuation performed by an independent valuer. The valuation implemented the "Market Approach" method based on the most recent committed transaction in the Company's shares, see Note 1e. It should be noted that as of 31 December 2018, the Company has received from the Investor cash down payments reflecting 20% of the transaction price. In addition, the Investor continues to demonstrate its intention to complete the transaction by, among others, committing to provide the Group with manufacturing equipment for nil consideration and also providing an extension of credit payment terms on the purchase by the Group of certain raw materials from the Investor (see Note 32).

Based on the fair value derived from the price in this transaction, it was determined that at 31 December 2018 there has been no impairment of goodwill. The fair value measurement is categorized as level 1 in the fair value hierarchy.

As additional supportive evidence of the fair value of the Group CGU, the valuation implemented the "Income Approach" method based on discounted cash flows ("DCF") with assumptions as to the future operations of the Group CGU. These assumptions are derived from the Company's past results, and management's projected growth in the Company and in the market.,

The valuation reflects assumptions that market participants would consider when assessing fair value.

Key assumptions used in calculating the fair value using DCF at 31 December 2018:

	%
Gross profit- for the period after the 5-year management forecast	17.8
Discount rate (before tax)	15.0
Growth for the period after the 5-year management forecast	2

The fair value determined in the valuation using DCF also supported that as of 31 December 2018 there has been no impairment of goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15:- SHORT-TERM CREDIT AND CURRENT MATURITIES OF LONG-TERM LOAN FROM BANK

	Annual interest rate (3)	31 December	
		2018	2017
		U.S. dollars in thousands	
	%		
Composition:			
In U.S. dollars (1)	8.4 - 11.8	9,794	1,706
In NIS		-	588
In other currencies (2)	8.5	201	-
		<u>9,995</u>	<u>2,294</u>

(1) Factoring arrangements for trade receivables and inventories in transit to customers. See Note 9 and Note 11.

(2) Current maturities of long-term loan. See Note 18.

(3) Short-term credit bears interest at the rate of LIBOR plus a margin. The above interest rates are the weighted average rates as of 31 December 2018.

NOTE 16:- TRADE PAYABLES

	31 December	
	2018	2017
	U.S. dollars in thousands	
Open accounts:		
In U.S. dollars	7,335	3,999
In GBP	140	149
In NIS	153	204
In other currency	166	581
	<u>7,794</u>	<u>4,933</u>

NOTE 17:- OTHER PAYABLES

	31 December	
	2018	2017
	U.S. dollars in thousands	
Payroll and related expenses	1,428	1,184
Payable for acquisition of subsidiary (1)	708	639
Income taxes payable	121	237
Current maturities of lease liabilities (2)	573	606
Accrued expenses and other	2,017	1,407
	<u>4,847</u>	<u>4,073</u>

(1) See Note 20.

(2) See Note 21.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18:- LOAN FROM BANK

a. Composition:

	December 31, 2018
	USD in thousands
Total loan balance	677
Less - current maturities	201
	476

b. Loan terms:

In October 2018, a subsidiary in Ethiopia received a loan from a bank in the amount of BIRR 20,000,000 (\$725,000). The loan is repayable in 36 equal installments and bears an interest rate of 8.5% per annum.

The subsidiary has pledged a factory building as collateral for the loan.

c. Maturity dates after the reporting date:

	USD in thousands
2019- current maturity	201
2020	237
2021	239
	677

NOTE 19:- EMPLOYEE BENEFIT LIABILITIES, NET

a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with a valid employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally financed by contributions classified as defined benefit plans or as defined contribution plans as detailed below.

1. Defined contribution plans:

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for compensation represent defined contribution plans.

As for the Group's foreign employees in certain countries, the Group pays fixed contributions to cover the obligation for employee-employer relations arising from the labor laws and the employment contracts in those countries. These contributions release the Group from any additional liability to employees for whom the said contributions were made (defined contribution plans).

	31 December	
	2018	2017
	U.S. dollars in thousands	
Expenses in respect of defined contribution plans	158	184

2. Defined benefit plans:

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in qualifying insurance policies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

2. Defined benefit plans: (Cont.)

a. Changes in the defined benefit obligation and fair value of plan assets:

2018:

	Expenses recognized in profit or loss						Total income (expense) recognized in profit or loss for the period	Payments from the plan	Gain (loss) from remeasurement in other comprehensive income	Contributions by employer	Balance at 31 December 2018
	Balance at 1 January 2018	Current service cost	Net interest expense	Past service cost and effect of settlements	Effect of changes in foreign exchange rates	Adjustments					
	U.S. dollars in thousands										
Defined benefit obligation	(962)	(58)	(44)	17	48	31	(6)	184	-	-	(784)
Fair value of plan assets	681	-	13	(8)	(45)	-	(40)	(167)	-	12	486
Net defined benefit asset (liability)	(281)	(58)	(31)	9	3	31	(46)	17	-	12	(298)

2017:

	Expenses recognized in profit or loss						Total income (expense) recognized in profit or loss for the period	Payments from the plan	Gain (loss) from remeasurement in other comprehensive income	Contributions by employer	Balance at 31 December 2017
	Balance at 1 January 2017	Current service cost	Net interest expense	Past service cost and effect of settlements	Effect of changes in foreign exchange rates	Adjustments					
	U.S. dollars in thousands										
Defined benefit obligation	(801)	(58)	(45)	14	(74)	(11)	(174)	17	(4)	-	(962)
Fair value of plan assets	591	-	18	(11)	69	-	76	(17)	15	16	681
Net defined benefit asset (liability)	(210)	(58)	(27)	3	(5)	(11)	(98)	-	11	16	(281)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

2. Defined benefit plans: (Cont.)

b. Plan assets:

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

c. Plan Liabilities, net:

	31 December	
	2018	2017
	U.S. dollars in thousands	
Defined benefit obligation	(784)	(962)
Fair value of plan assets	486	681
Total liabilities, net	(298)	(281)

d. The key assumptions used in defined benefit plan:

	31 December	
	2018	2017
	%	
Discount rate of the plan liability (1)	3.27	2.33
Rate of increase in the Israeli CPI	1.37	1.07
Expected salary increases	0.90	0.78
Employee turnover rate (2)		

(1) Market yields on high quality corporate bonds.

(2) Employee turnover rates in 2018 and in 2017 are 20%, 15%, 10%, 5%, in the following age range 18-35, 36-45, 46-50, 51-retirement, respectively.

NOTE 20:- PAYABLE FOR ACQUISITION OF SUBSIDIARY

Composition:

	31 December	
	2018	2017
	U.S. dollars in thousands	
Payable for acquisition of subsidiary (1)	2,354	2,793
Less - current maturities	708	639
	1,646	2,154

(1) Pursuant to an agreement extended in 2015, see Note 5.

(2) For the repayment schedule after the reporting date see Note 23(b).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21:- LEASE LIABILITIES

a. Composition:

	31 December	
	2018	2017
	U.S. dollars in thousands	
Lease liabilities	2,130	1,186
Less - current maturities	573	606
	1,557	580

The Group leases various properties:

- (1) The Egyptian subsidiary leases the factory building from its other shareholder. The lease agreement is until July 2022 at an annual rent of \$300 thousands till May 2020 and \$350 thousands till July 2022.
- (2) A subsidiary in U.S leases an office building at an annual rent of \$211 thousands that originally was till May 2019. In 2018 the subsidiary renewed the agreement for a period of five years from May 2019. The subsidiary has sub-leased a portion of the property for the same lease period for annual rent of \$101 thousands. See Note 12.
- (3) The Company also has vehicle leasing agreements for periods of three years.

As more fully described in Note 21, on adoption of IFRS 16 the Group recognized lease liabilities in relation to these leases which previously were classified as operating leases under IAS 17. See Note 13 for the related right of use assets.

b. Information on leases in which the Company is a lessee:

	Year ended December 31, 2018
	U.S. dollars in thousands
Depreciation expense for right-of-use assets	551
Interest expense for lease liability	119
	670
Income from subleasing right-of-use assets	79
Total expenses for leases	591

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22:- COMMITMENTS AND CONTINGENCIES

1. A subsidiary has two exclusive licenses to use brand names in certain countries in return for the payment of royalties at a certain percentage of sales of products manufactured under these brand names. The licenses are for varying periods ending from 2019 to 2021 with the possibility of extensions for certain licenses. After the reporting date, one of the agreements was extended until January 2020.

Total royalties in the year ended 31 December 2018 amounted to approximately \$ 98 thousands (2017- \$116 thousands).

2. The Egyptian subsidiary provided bank guarantees in the amount of approximately \$ 50 thousands in favor of foreign authorities.
3. For agreement with the Egyptian partner regarding purchase commitments, see Note 5.

NOTE 23:- FINANCIAL INSTRUMENTS

- a. Financial risk factors:

The Group's activities expose it to various financial risks such as market risk (including currency risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

Risk management is performed by the finance unit, headed by the Group's CFO. The finance unit identifies and manages financial risks in collaboration with the Group's operating units. A team comprising the Group's CEO and CFO was established for operating in the foreign currency market. The Group's management updates the Company's Board on the policy for risk management when the Group's annual budget is presented and, where appropriate, when the annual and interim financial statements are presented.

1. Exchange rate risk:

The Group operates in a large number of countries and is exposed to exchange rate risk resulting from the exposure to fluctuations in the exchange rates primarily of the Ethiopian Birr, the Egyptian Pound and the NIS.

The Group has labor and operations costs in local currency in its factories in Egypt (Egyptian Pound) and Ethiopia (Ethiopian Birr) as well at the headquarters in Israel (NIS). Fluctuations in the exchange rates of these currencies may affect the production and operation costs of the company.

2. Credit risk:

Most of the cash and cash equivalents and short-term deposits as of 31 December 2018 are deposited with major banks in Israel and abroad.

In view of the large number of countries in which the Group operates, its cash and cash equivalents and investments are diversified among the various financial institutions and the Group regularly examines evaluations of the credit stability of the different financial institutions. Management considers the credit risk for cash, cash equivalents and short-term deposits remote and insignificant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

a. Financial risk factors: (Cont.)

Trade receivables as of 31 December 2018 are mainly from customers in the U.S. and Europe, including three major customers - one in the UK and two in the U.S. (see Note 25 (a)). The Company and certain subsidiaries insure receivables for all customers with credit insurance. The Group performs ongoing reviews of the credit granted to customers and the possibility of loss therefrom and includes an adequate allowance for specific accounts whose collection is doubtful.

3. Liquidity risk:

The Group finances its activities from its operations and loans from bank.

b. Summary of liquidity risk:

The table below presents the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

31 December 2018:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
	U.S. dollars in thousands					
Short-term credit	9,794	-	-	-	-	9,794
Trade payables	7,794	-	-	-	-	7,794
Other payables	3,566	-	-	-	-	3,566
Long-term loan from bank (including current maturities)	270	270	225	-	-	765
Lease liabilities	695	630	589	409	322	2,645
Payables for acquisition of subsidiary	1,000	800	800	400	-	3,000
	<u>23,119</u>	<u>1,700</u>	<u>1,614</u>	<u>809</u>	<u>322</u>	<u>27,564</u>

31 December 2017:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
	U.S. dollars in thousands					
Short-term credit	2,294	-	-	-	-	2,294
Trade payables	4,933	-	-	-	-	4,933
Other payables	2,828	-	-	-	-	2,828
Lease liabilities	714	512	122	-	-	1,348
Payables for acquisition of subsidiary	1,000	800	800	800	400	3,800
	<u>11,769</u>	<u>1,312</u>	<u>922</u>	<u>800</u>	<u>400</u>	<u>15,203</u>

c. Fair value:

The fair value of cash and cash equivalents, short-term deposits, accounts receivable, trade and other payables approximate their carrying amount due to the short-term maturities of these items. The fair value of the finance lease receivable at 31 December 2018 approximates its carrying amount.

The Group has performed sensitivity tests of market risk factors (principally foreign currency risk) that are liable to affect its reported operating results or financial position. The test of risk factors was determined based on the materiality of the exposure of the operating results or financial condition with reference to the functional currency and assuming that all the other variables are constant. Based on the results of those tests, it was determined that reasonably possible changes (5%) in foreign currency exchange rates would not have a material impact on Group income before taxes and on equity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23:- FINANCIAL INSTRUMENTS (Cont.)

- d. Changes in liabilities arising from financing activities:

	Opening Balance 1 January 2018	Cash flows	Other adjustments	Recognition of new lease	Closing Balance 31 December 2018
	U.S. dollars in thousands				
Short-term credit	2,294	5,432	2,068	-	9,794
Long-term credit, net	-	688	(11)	-	677
Lease liabilities (including current maturities)	1,186	(710)	119	1,525	2,120
Payable for acquisition of subsidiary (including current maturities)	2,793	(800)	361	-	2,354

	Opening Balance 1 January 2017	Cash flows	Other adjustments	Recognition of new lease	Closing Balance 31 December 2017
	U.S. dollars in thousands				
Short-term credit	-	2,280	14	-	2,294
Lease liabilities (including current maturities)	-	(720)	107	1,799	1,186
Payable for acquisition of subsidiary (including current maturities)	3,174	(800)	419	-	2,793

NOTE 24:- EQUITY

- a. Composition of share capital as of:

	31 December 2018 and 2017	
	Authorized	Issued and outstanding
	Number of shares	
Ordinary shares of NIS 0.04 par value each	355,330,017	310,542,881

- b. Regarding an investment agreement in the Company and receipts on account of shares, see Note 1 (e).
- c. Capital reserves:

Adjustments arising from the translation of foreign operations:

The reserve is used to record changes in the exchange rates of foreign currency arising from the translation of the financial statements of investees which constitute foreign operations.

Reserve from transaction with shareholders:

Assets and liabilities involved in a transaction between the Company and the controlling shareholder or between companies under common control are recognized at fair value at the date of the transaction. The difference between the fair value and the consideration determined in the transaction is presented in a separate item in equity "reserve from transaction with shareholders".

As a result of the remeasurement to fair value of shareholders' loans, capital notes and fees payable in connection with the IPO in 2014, the difference between their carrying amounts and their fair values in the amount of \$ 10,165 thousands was recorded in the Company's equity as capital reserve for transactions with shareholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- ADDITIONAL INFORMATION TO ITEMS IN THE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December	
		2018	2017
		U.S. dollars in thousands	
a.	Revenues from sales to major customers:		
	Customer A - the U.S	24,051	19,457
	Customer B - the UK	8,513	13,557
	Customer C - the U.S	9,596	7,277
b.	Cost of sales:		
	Materials consumed	14,837	10,835
	Payroll and related expenses	5,639	4,719
	Subcontractors and subcontracted work	25,759	23,541
	Depreciation and amortization	1,187	871
	Other manufacturing expenses	3,472	3,484
		50,894	43,450
		Year ended 31 December	
		2018	2017
		U.S. dollars in thousands	
c.	Selling and marketing expenses:		
	Payroll and related expenses	1,604	1,608
	Transportation and storage	2,304	1,997
	Depreciation and amortization	201	647
	Advertising	28	28
	Bad debts and doubtful accounts	5	15
	Other	621	731
		4,763	5,026
d.	General and administrative expenses:		
	Payroll and related expenses	1,507	2,132
	Consulting	84	59
	Listed company expenses	437	408
	Depreciation and amortization	141	149
	Other	439	551
		2,608	3,299

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 25:- ADDITIONAL INFORMATION TO ITEMS IN THE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont.)

		Year ended 31 December	
		2018	2017
		U.S. dollars in thousands	
e.	Development costs:		
	Payroll and related expenses	686	735
	Material consumed	6	9
	Other	108	103
		<u>800</u>	<u>847</u>
f.	Other expenses include mainly expenses in connection with the Company efficiency program.		
g.	Finance income		
	Exchange rate	12	2
	Income from finance lease	5	8
	Other	3	-
		<u>20</u>	<u>10</u>
h.	Finance expenses:		
	Interest expenses from financial liabilities measured at amortized cost	361	435
	Interest for lease liabilities	119	107
	Finance expenses in respect of short term credit from factoring arrangements and others	1,393	1,089
	Exchange rate	-	456
	Other	167	45
		<u>2,040</u>	<u>2,132</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- TAXES ON INCOME

- a. Tax laws applicable to the Company in Israel:

Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli Consumer Price Index ("CPI").

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to 31 December 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation (in respect of depreciable assets purchased after the 2007 tax year).

- b. Tax laws applicable to foreign Group companies:

Foreign subsidiaries are taxed according to the tax laws in their countries of residence.

- c. Tax rates applicable to the income of the Group companies:

1. Companies in Israel:

The Israeli corporate income tax rate was 23% in 2018 and 24% in 2017.

2. Foreign subsidiaries:

The principal tax rates applicable to the subsidiaries whose place of incorporation is outside Israel are:

A company incorporated in the U.S. - in 2018, the weighted tax is at the rate of about 21% (2017-40%) (federal tax, state and city tax in the place of operation of the company).

Company incorporated in the UK- 2018 – 19.25%.

A company incorporated in Egypt:

The statutory tax rate in Egypt is 22.5%. The company operates in a free trade zone and is entitled to a full income tax exemption. Free zone companies pay 1% from their exports and 0.1% from their imports which included in the Company's cost of sales. The tax and other benefits available to the company in the free trade zone are for a period of 25 years commencing from 2003. Based on an amendment published in 2013, the period of the company's license to operate in the free trade zone is limited to the date on which the lease of its property in the free trade zone ends. The Company has extended the lease agreement until July 2022.

A company incorporated in Ethiopia- 2018- 30% (2017- 30%).

- d. Final tax assessments:

The Company has not received final tax assessments since its incorporation (July 2007), however, the assessments of the Company are deemed final through 2013. The majority of foreign subsidiaries have received final tax assessments until 2010-2012, inclusive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- TAXES ON INCOME (Cont.)

- e. Losses and deductions carried forward for tax purposes:

As of 31 December 2018, carry-forward operating losses and temporary differences of the Company total approximately \$ 54 million and capital tax losses total approximately \$ 16 million.

As of 31 December 2018, carry-forward operating losses of foreign subsidiaries total approximately \$ 6.6 million.

Tax benefit of approximately \$ 0.1 million relating to tax losses of approximately \$ 0.6 million was recorded.

The tax benefit in respect of the remaining losses and temporary differences has not been recorded in the financial statements due to the uncertainty of their utilization.

- f. Deferred taxes:

Composition:

	Statement of financial position		Statement of profit or loss and other comprehensive income	
	31 December		Year ended 31 December	
	2018	2017	2018	2017
	U.S. dollars in thousands			
Deferred tax liabilities:				
Depreciable assets	1,147	1,128	19	(6)
Deferred tax assets:				
Carryforward tax losses	132	181	49	179
Deferred tax expense			68	173

The deferred taxes are computed at the tax rates of principally 24% (2017- 30%), based on the tax rates that are expected to apply upon realization.

- g. Tax expenses included in the statement of profit or loss and other comprehensive income:

	Year ended 31 December	
	2018	2017
	U.S. dollars in thousands	
Current taxes	4	291
Deferred taxes	68	173
Taxes in respect of previous years	-	(341)
	72	123

The current taxes were computed at the average tax rate of about 24%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 26:- TAXES ON INCOME (Cont.)

- h. Below is reconciliation between the tax expense assuming that all the income was taxed at the statutory tax rates applicable to the companies in Israel and the tax expense as reported in the statement of profit or loss and other comprehensive income:

	Year ended 31 December	
	2018	2017
	U.S. dollars in thousands	
Loss before taxes on income	(5,775)	(2,905)
Statutory tax rate in Israel	23%	24%
Tax benefit computed at the statutory tax rate	(1,328)	(697)
Increase (decrease) in taxes on income resulting from the following factors:		
Differences between statutory tax rate in Israel and the tax rates on foreign companies	(162)	40
Nondeductible expenses	152	48
Differences in measurement basis between tax purposes and financial reporting purposes	27	(326)
Taxes in respect of previous years	-	(341)
Utilization of previously unrecognized tax losses	(187)	-
Adjustment of deferred tax balances following a change in tax rate	-	179
Losses for which no tax benefit has been recorded	1,249	1,111
Other	321	109
Tax expense	72	123

NOTE 27:- 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	
	2018	2017
	U.S. dollars in thousands	
Equity-settled share-based payment plans	84	177

- b. 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 thousands at the date of the grant.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 27:- SHARE-BASED PAYMENT (Cont.)

- c. The total number of options under the Company's existing plan are 29,463,900. According to the terms of the share options granted, the vesting of 29,037,150 options will be accelerated and become immediately exercisable upon takeover event or change of control of the Company.

- d. Movement during the year:

	2018		2017	
	Number of options	Weighted average exercise price USD	Number of options	Weighted average exercise price USD
Share options outstanding at beginning of year	30,788,825	0.05	33,963,786	0.05
Share options granted during the year	-	-	700,000	0.04
Share options forfeited during the year	(1,324,925)	0.05	(3,874,961)	0.05
Share options outstanding at end of year	<u>29,463,900</u>	<u>0.05</u>	<u>30,788,825</u>	<u>0.05</u>
Share options exercisable at end of year	<u>6,506,299</u>	<u>0.05</u>	<u>6,592,974</u>	<u>0.045</u>

- (1) The weighted average remaining contractual life for the share options outstanding as of 31 December 2018 is 7.65 years (2017- 8.65 years).
- (3) The range of exercise prices for share options outstanding as of 31 December 2018 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 28:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

- a. Balances:

As of 31 December 2018:

	Key management personnel U.S. dollars in thousands
Other payables (2)	423

As of 31 December 2017:

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

- b. Benefits to key management personnel: (1)

	Year ended 31 December	
	2018	2017
	U.S. dollars in thousands	
Short-term benefits (2)	990	1,329
Post-employment benefits	63	64
Share-based payment	42	98
	<u>1,095</u>	<u>1,491</u>

- (1) Includes members of the Board of Directors.
- (2) Includes termination expenses totaling US \$ 124 thousands.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 29:- 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			
2018		2017	
Weighted number of shares *)	Net loss	Weighted number of shares *)	Net loss
In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands
310,543	(5,847)	310,543	(3,028)

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

NOTE 30:- ADDITIONAL INFORMATION ON OPERATIONS

a. General:

The Group has only one operating segment - the manufacturing and marketing of men and women's tailored fashion (mainly men's).

b. Revenues by geographical area:

	Year ended 31 December	
	2018	2017
	U.S. dollars in thousands	
U.S.	41,572	39,571
Europe (mainly UK)	14,353	10,450
Other	488	1,070
Total	56,413	51,091

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	
	2018	2017
	U.S. dollars in thousands	
Israel	1,071	1,855
UK	1,028	1,032
U.S.	6,651	6,210
Ethiopia	7,091	6,899
Other	1,557	1,222
	17,398	17,218

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 31:- LIST OF INVESTEEES

	2018		2017	
	Shares conferring voting rights	Shares conferring rights to profits	Shares conferring voting rights	Shares conferring rights to profits
	%			
Active companies				
<i>Subsidiaries</i>				
Bagir Holdings (UK) Limited,	100	100	100	100
Bagir (BVI) Limited, British Virgin Islands (a subsidiary of Bagir Holdings (UK) Limited)	100	100	100	100
Bagir International, Inc., U.S. (a subsidiary of Bagir Holdings (UK) Limited.	100	100	100	100
Middle East Tailoring Company SAE, Egypt (owned by Bagir (BVI) and Bagir Holdings (UK) Limited) *)	100	50	100	50
Nazareth Garments Share Company, Ethiopia (see Note 6)	100	100	100	100
<i>In liquidation</i>				
Bagir GmbH, Germany (a subsidiary of Bagir Holdings (UK) Limited)	100	100	100	100
DRNBHV, Schuler Herrenkleiderfabrik GmbH (a subsidiary of Bagir GmbH)	100	100	100	100

*) See Note 5.

NOTE 32:- SUBSEQUENT EVENTS

In February 2019, the Company announced that further to the investment of \$16.5 million by the Investor (see Note 1d), the Investor intends to provide manufacturing equipment for the exclusive and indefinite use of the Group in the Ethiopian manufacturing facility. The manufacturing equipment will be provided to the Company for no consideration. The market value of the manufacturing equipment to be provided is estimated at approximately \$1.3 million. The manufacturing equipment is expected to be delivered to the subsidiary in Ethiopia during 2019.

In addition, the Investor, an existing supplier of the Company, has granted an extension of 90 days to their usual credit payment terms on the acquisition of up to 500,000 meters of wool and wool blend fabrics at market value. This extension to the investor's credit terms will last until 30 June 2019.

The completion of the investment in the Company by the Investor that is expected to be received no later than May 2019.

The new manufacturing equipment, together with the additional investment by the Company will serve as the base of a new production line in the Ethiopian site.
