BAGIR GROUP
Global Innovative Tailoring

ANNUAL REPORT & ACCOUNTS

2016

For the year ended December 31, 2016

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Board of Directors, Secretary and Advisers

Directors

Tessa Laws (Non-Executive Chairman)
Eran Itzhak (Chief Executive Officer)
Yehuda Cohen (Chief Financial Officer and Deputy CEO)
Marc Zalcman (Non-Executive Director)
Samuel Vlodinger (Non-Executive Director)
Esti Maoz (Non-Executive External Director)
Donald Stewart (Non-Executive Director)

Company Secretary

Inbal Gedalia, 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
3 Aminadav Street
Tel Aviv 67067, Israel

Public Relations adviser to the Company

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

Registrar

Capita Registrars (Guernsey) Limited
Mont Crevelt House
Bulwer Avenue St Sampson
Guernsey GY2 4LH

Highlights

About the Company

Bagir Group and its subsidiaries ("Bagir Group" or "Bagir" or "the Company") is a global innovative tailoring provider which specializes in developing, manufacturing and marketing of high quality men and women's tailored fashions. 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.

2016 Highlights

- Generated revenues of $64.1m for 2016 in line with expectations in the US, the UK and other markets (including Europe, South Africa and Australia). The reduction from the previous year (2015: $75.2m) mainly attributable to the reduction in sales from M&S and to shifting to sales net of fabric with a US customer
- Recorded positive EBITDA* of $1.6m in 2016 – demonstrating the successful execution of the Recovery Plan reversing an EBITDA* loss of $(4.3m) in 2015
- Gross margin increased strongly to 16.4% in 2016 compared with 11.6%** in 2015 – driven by a mix of cost efficiencies and higher margin sales
- Reduction of overhead expenses by c.30% compared with 2015
- Net income of $9.9m*** in 2016, compared with net loss of $(11.7m) in 2015
- Cash and cash equivalents at 31 December 2016 of $8.6m (2015: $7.5m)
- Completed two successful private placings in October and December 2016, raising a total of $10.3m, net of issuance expenses
- Completion of an agreement with the lenders, Bank Leumi and Bank Discount, to clear all outstanding bank debt ($21 million)
- Ethiopia - first international orders shipped, initially to global high street retailer H&M, and then Haggar Clothing Co.
- Post-period end in February, 2017 the Company acquired the remaining 50% of its Ethiopian manufacturing site, for total consideration of $1.9 million, conditional on certain procedures that are estimated to be completed on or before the end of April 2017

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* 'EBITDA' is a non-IFRS measure that the Company uses to measure its performance. It is defined as Operating Income (loss) before Depreciation and Amortisation (2016: $1.7m 2015: $2.9m) and non-cash share based compensation (2016: $0.2m). In 2015 the EBITDA was adjusted also for impairment of intangible assets of $1.4m
** Adjusted for impairment of intangible assets of $1.4m
*** Including $13.3m financial income from debt write-off, attributed to the clearance of the bank loans

Outlook

- The Company's strategy is unchanged and focused on generating growth from:
  - Expanding the current customer base through securing high volume sales orders from the larger end of the US, UK, Europe, South Africa and Australia retail markets driven in part by the Company's new pricing model;
  - Expanding capacity at the Company's chosen production geographies in several production sites in Ethiopia, Egypt and Vietnam and maximising the potential for customs/tariff free trade routes which are not affected by the proposed US import tax increase which therefore may create a further competitive advantage;
  - Investing behind the expansion of the wholly owned Ethiopian factory where labour costs and tax structures provide the basis for creating the Group's primary manufacturing site;
  - Reinvesting in product development to maintain the flow of innovative designs to new and existing customers; and
  - Ensuring optimum operational efficiency in line with the new shape of the Company.

- 2017 has begun positively with interest increasing amongst key target customers who recognize the value of Bagir's differentiated offer in terms of innovation, pricing and manufacturing expertise. Following the secured new contracts with H&M and Haggar Clothing Co. and new recruited customers in both the US and the EU, we are holding promising discussions with several further significant potential clients. We are conscious of where we have come from and therefore we intend to remain very focused on developing a long-term, profitable business with a balanced portfolio of clients.

Strategic and Financial Review

Introduction

2016 represented a tremendous turnaround for Bagir. The Company completed its' Recovery Plan, reducing overhead costs across the business by 30%, reorganising production to focus on three manufacturing geographies in several production sites in Egypt, Vietnam and Ethiopia, targeting new clients in the US, the UK, Europe, South Africa and Australia and reversing a significant loss to generate positive EBITDA of $1.6 million.

On the back of these achievements, the Company raised $10.3 million in two private placements, the proceeds of which enabled the Company to execute agreements with its lenders to clear all bank debt, significantly strengthening our financial position. Post-period end further investment was announced in February 2017 in order to expand capacity in the production site in Ethiopia.

Operational review

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

Throughout 2016, the Company took significant and successful action to restore the business. A key focus was to reduce the cost base which is now approximately 30% lower and there remain further areas for potential savings to be made. Cost reduction was a significant driver in the Company reversing the losses at EBITDA level last year and recording a positive EBITDA performance of $1.6m for 2016. This, together with improving gross profit margins, completing the restructuring of the manufacturing base and continuing to attract new customers driven by the Company's new pricing model and the launch of new products, represents a significant achievement.

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

Innovation and quality remains at the heart of all Company activity. Bagir is intensely proud of its track record created over the last 50 years of servicing leading western retailers. Currently there are 8 new innovations in the pipeline, most of which are ready to market and the Company is planning to start actively presenting them to customers.

Competitive pricing as well as new concepts and quality tailoring are critical to new customer acquisition. It reflects well on the Company that even during this period of significant change and financial constraint for the business it continued to win new business and acquire new customers. The target now is to expand the Company's current customer base so as to reduce reliance on any one individual customer by securing high volume sales orders from the larger end of the US, UK, Europe, South Africa and Australia retail market, supported by a new pricing model.

Enhancing IT capabilities and expanding online sales functions is a significant area of focus. In January 2016, the Company deployed product lifecycle management (PLM) and is planning to deploy an enterprise resource planning (ERP) systems across the business. The Company is targeting customers with leading online distribution platforms with a view to increasing its online sales.

Banking

In July 2016 the Company signed an agreement with Leumi Bank and Discount Bank for a partial repayment and write-off the balance of all bank loans amounting to approximately $21 million and associated obligations, subject to the Company fulfilling the following conditions to them pro rata before 31 December 2016:

- a cash payment of $6.3 million. The Company funded this cash payment through a private placement which completed in October 2016; and
- the issue and allotment to the banks of 8.33% of the Company's total issued share capital as enlarged by the private placement.

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

Financial results

Revenue for 2016 was in line with management expectations in both the US, the UK, Europe, South Africa and Australia markets and amounted to $64.1m compared with $75.2m for 2015. The reduction in sales is attributed mainly to the reduction in sales to the Company's former largest customer as announced in 2014 (from approximately $10m in 2015 to approximately $2m in 2016). At the same time, some sales were made net of fabric to a large US customer although this did not impact on the gross profit (the fabric amount that should be added to 2016 sales for comparison with 2015 is approximately $4.5m). The cessation of brand activity as part of the Recovery Plan also contributed to the reduction in sales. However, it is important to note that notwithstanding the overall reduction, the Company did successfully grow revenues elsewhere through additional sales to existing and new retail customers.

The gross margin for 2016 was 16.4% compared with 9.8% for 2015 (and 11.6% in 2015 when adjusted for impairment of intangible assets of $1.4m). This increase is primarily attributed to the restructuring in production sites (including subcontractor costs), the reduction in overall overhead costs and the reduction in amortisation costs as a result of the impairment of intangible assets in 2015. It also includes a non-recurring government subsidy in Egypt of approximately $0.5m from previous years.

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

Selling and marketing expenses decreased to $6.2m in 2016 (2015: $9.5m), development costs decreased to $1.7m in 2016 (2015: $2.2m) and general and administrative expenses decreased to $3.1m in 2016 (2015: $4.3m).

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

As a result of the above achievements and the successful execution of the Recovery Plan, the Company turned a negative EBITDA of $(4.3)m for 2015 into a positive adjusted EBITDA of $1.6m in 2016 (computed as operating income excluding depreciation, amortization and non-cash share based compensation).

Adjusted operating income (loss) before $1.4m amortisation of intangible assets (2015: $2.4m) and before $1.1m impairment of intangible assets related to the recovery plan, turned from $(4.9)m for 2015 to $1.4m for 2016.

Net Income for 2016 amounted to $9.9m, compared with a net loss of $(11.7)m in 2015. The net income in 2016 included $13.3m financial income from debt write-off, attributed to the clearance of the bank loans.

Cash and cash equivalents as of 31 December, 2016 increased to $8.6m compared with $7.5m at 31 December 2015.

Net cash at 31 December 2016 was $8.6, compared with net debt of $13.8m at 31 December 2015. The improvement is attributed to the fundraising and the bank debt clearance.

Board

Fiona Holmes stepped down as a Director with effect from December 2016 and the Board reiterates its thanks to her for her contribution to Bagir over the last few years.

Post-period end, Esther Maoz was appointed as an External Director under Israeli Companies Law. Esther is currently Senior Vice-President and Chief Marketing and Innovation Officer (CMO) of Delta Galil Industries LTD., the global manufacturer and marketer of private label apparel products. Previously she was President of Delta Textiles, a new 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.

Donald Stewart retires by rotation at the Company's next AGM and Donald has informed the Board that he does not intend to seek re-election. The Board is extremely grateful to Donald for his contribution as a Director over the last few years. The Board intends on appointing an additional UK based Director who will be categorised as an additional 'External Director' under Israeli Companies Law.

Outlook

The Company is now focused on executing its strategy for growth during 2017 and beyond. Its manufacturing base is focused on just three sites in Egypt, Vietnam and Ethiopia, they have been chosen for Bagir's ability to offer customers customs/tariff free trade routes which importantly are not affected by the proposed increase in US duty imports, a factor which may further improve the Group's competitive advantages. Ethiopia, in particular, is a key production site for Bagir and the Company is investing in expanding this facility to support expected future demand.

The focus for new revenues is on securing high volume sales orders from the larger end of the US, UK, Europe, South Africa and Australia retail markets. In 2016, the Company fulfilled the first new international orders from Ethiopia for H&M and Haggar Clothing Co. as well as other new customers already recruited in both the US and the EU. In 2017, the Company has started positively securing its first order from France, from one of the country's leading retailers and production at all three sites is up against last year. The Group is having promising discussions with a number of well-known international retailers for new orders which if a sensible proportion are converted into long-term clients they will form an important part of the Group's future revenues.

Momentum within the Group is positive and the team is increasing in confidence as the hard work into re-establishing the business proves its worth. The Company is again firmly on the path of growth.

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.

Yehuda Cohen Chief Financial Officer and Deputy CEO

Yehuda joined the Group in 2012 as Chief Financial Officer, supporting the Group's growth and the control over its worldwide operations. He was appointed to the Board in April 2014. He is a qualified Certified Public Accountant with more than 15 years' experience with both private and public companies with global operations in the high-tech and industrial sectors. Prior to joining the Group, Yehuda was Chief Financial Officer of IDIT I.D.I. Technologies Ltd., Corporate Controller at RoboGroup Ltd. and Finance Manager at LivePerson Inc. He has an MBA from Technion Israel Institute of Technology and a BA in Economics and Accounting from Tel Aviv University.

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 was a Senior Partner at FIMI Private Equity, a leading private equity group in Israel. He is currently Chairman of Raval ACS Ltd and Ginegar Plastic Ltd and a Private Equity fund investor and partner at A.P. Partners. Samuel has an Engineering degree from the 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 Olpiner-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.

Donald Stewart Non-Executive Director (A) (R) (N)

Donald Stewart was appointed as a non-executive director of Bagir in October 2015. He has substantial experience of working with small and mid-sized quoted companies and is currently chairman of a UK AIM quoted technology company. Donald is a former director and past chairman of the Quoted Companies Alliance, the UK not-for-profit organization dedicated to promoting the cause of smaller quoted companies. Donald is a solicitor and has practiced corporate law, particularly focused on smaller quoted companies, for almost 30 years.

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, 2016.

1. Principal activities

Bagir Group and its subsidiaries ("Bagir Group" or "Bagir" or "the Company") is a global innovative tailoring provider which specializes in developing, manufacturing and marketing of high quality men and women's tailored fashions. 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).

2. Financial Review

The results for the year 2016 are discussed on pages 7-9 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 2016 are set out on note 22 to the financial statements.

5. Directors

The following Directors held office on December 31, 2016:

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 (Chief Financial Officer and Deputy CEO), appointed as director in April 2014 and Deputy Chief Executive Officer in October 2015.

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

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

Donald Stewart (Non-Executive Director), appointed in October 2015.

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

Fiona Holmes (Non-Executive Director), resigned with effect from December 2016.

Biographical details of the Directors are set out on pages 11-12.

6. Directors' Interests

As of December 31, 2016:

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***	2.35%
Yehuda Cohen	Nil	6,644,299***	1.93%
Samuel Vlodinger*	419,333	128,175***	0.16%
Marc Zalcman**	Nil	Nil	Nil
Fiona Holmes	26,785	Nil	0.01%
Donald Stewart	143,000	Nil	0.04%

As of December 31, 2015:

Director	Number of ordinary shares	Number of ordinary shares under option	Percentage of issued share capital on a fully diluted basis
Tessa Laws	24,390	Nil	0.05%
Eran Itzhak	Nil	54,850***	0.11%
Yehuda Cohen	Nil	91,175***	0.18%
Samuel Vlodinger*	133,333	128,175***	0.51%
Marc Zalcman**	Nil	Nil	Nil
Fiona Holmes	26,785	Nil	0.05%
Donald Stewart	Nil	Nil	Nil

* As of 2015: Samuel Vlodinger was a senior partner at First Israel Mezzanine Investors Ltd. ("FIMI") which, through FIMI Israel Opportunity Fund II, L.P., FIMI Opportunity Fund II, L.P. and FIMI Opportunity 2005 Ltd., is interested in 8,735,385 Ordinary Shares, in aggregate, represented 17.34 percent of the total voting rights of the Company. Samuel Vlodinger was therefore, directly and indirectly interested in 8,868,718 Ordinary Shares, in aggregate, which represented 17.60 percent of the total voting rights of the Company.

During 2016 Samuel Vlodinger stepped out of FIMI fund.

** 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 8,893,419 Ordinary Shares representing 2.86 per cent of the total voting rights of the Company, and 14 per cent. of the issued share capital of Silverboim Industries Ltd, which in turn owns the entire issued share capital of S.G. Textile Holdings Ltd. that is interested in 573,750 Ordinary Shares representing 0.03 per cent of the total voting rights of the Company.

As of 2015: Marc Zalcman owned 100 per cent of the issued share capital of Man Capital Management Ltd. that was interested in 1,046,690 Ordinary Shares which represented 2.24 per cent of the total voting rights of the Company, and 14 per cent. of the issued share capital of Silverboim Industries Ltd, which in turn owns the entire issued share capital of S.G. Textile Holdings Ltd. that is interested in 573,750 Ordinary Shares which represented 1.14 per cent of the total voting rights of the Company.

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

<u>As of 2016</u>:

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 October 2016, another 500,000 options will vest on 31 October 2017 and the balance vest on 31 October 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 October 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 over 5 years from the grant.

<u>As of 2015</u>:

Eran Itzhak: 33,350 options at NIS 0.04 exercise price per share, and 21,500 options at $1.6 exercise price per share. Yehuda Cohen: 55,425 options at NIS 0.04 exercise price per share, and 35,750 options at $1.6 exercise price per share. Samuel Vlodinger: 77,925 options at NIS 0.04 exercise price per share, and 50,250 options at $1.6 exercise price per share.

7. Directors' remuneration

The total remuneration of the Board of directors for the years ended December 31, 2016 and 2015 (USD in thousands) is as follows:

For the year ended December 31, 2016:

Name	Salary/Director Fees	Pension and Benefits	Share based compensation	Total cost
Tessa Laws	69	Nil	Nil	69
Samuel Vlodinger	28	Nil	Nil	28
Marc Zalcman	28	Nil	Nil	28
Fiona Holmes	27	Nil	Nil	27
Donald Stewart	27	Nil	Nil	27
Non-executive directors	**179**	**Nil**	**Nil**	**179**
Eran Itzhak*	338	24	70	432
Yehuda Cohen*	283	22	62	367
Executive directors	**621**	**46**	**132**	**799**
Subtotal	**800**	**46**	**132**	**978**

* The executive director's salary includes bonuses

** As part of the Recovery Plan, the non-executive's directors agreed to a reduction of the director fees from Q4 2015 until the end of 2016

For the year ended December 31, 2015:

Name	Salary/Director Fees	Pension and Benefits	Share based compensation	Total cost
Tessa Laws	55	Nil	Nil	55
Samuel Vlodinger	42	Nil	1	43
Marc Zalcman	42	Nil	Nil	42
Fiona Holmes	44	Nil	Nil	44
Donald Stewart	8	Nil	Nil	8
Keith Hamill	93	Nil	Nil	93
George Adams	49	Nil	Nil	49
Non-executive directors	**333**	**Nil**	**1**	**334**
Eran Itzhak	149	17	1	167
Yehuda Cohen	187	21	2	210
Daniel Shalom Taragan	402	43	3	448
Executive directors	**738**	**81**	**6**	**825**
Subtotal	**1,071**	**81**	**7**	**1,159**

8. Substantial shareholders

As at December 31, 2016, the Company had been notified of the following interests in 3 percent or more of the issued ordinary share capital of the Company:

Name	Number of shares	% of issued ordinary share capital
Barinboim Properties Ltd.*	65,410,095	21.06
Miton Group plc	55,858,492	17.99
Hargreave Hale	49,416,209	15.91
City Financial Absolute Equity Fund	23,614,000	7.60
Noked Equity Limited Patners	22,462,800	7.23
AXA Investment Mangers UK Limited	16,136,000	5.20
The Phoenix Investments & Finance Ltd.	13,477,700	4.34
Bank Leumi	12,705,748	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.

As at December 31, 2015, the Company had been notified of the following interests in 3 percent or more of the issued ordinary share capital of the Company:

Name	Number of shares	% of issued ordinary share capital
First Israel Mezzanine Investors*	8,735,385	17.34
Hargreave Hale	8,377,570	16.63
Miton Group plc	8,322,919	16.52
Barinboim Properties Ltd.**	6,923,095	13.74
Artemis Investment Management LLP	6,673,571	13.25
Henderson Global Investors	2,678,571	5.32
AXA Investment Mangers UK Limited	1,850,000	3.67

* By FIMI Israel Opportunity Fund II, L.P, FIMI Opportunity Fund II, L.P and FIMI Opportunity 2005 Ltd.
** The interest by Barinboim properties consist of direct interest in 6,429,670 Ordinary Shares representing 12.76 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 1.14 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 it relationships with its key customers, with concentrated customer base portfolio. 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 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 2017 at the Company's UK offices, when, among other things, the Annual Report and Accounts for 2016 will be put before the Shareholders. The notice of AGM will be set 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.

1. Board composition, roles and independence

The Company's Board consist of seven directors, five of whom are non-executive directors. Three 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.

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, which will meet at least twice each year.

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

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 has considered the independence of its non-executive directors in line with the principles of the Code and, following careful consideration, assessed that, in the year ended 2015, Fiona Holmes, Donald Stewart and

Tessa Laws directors considered by the Board to be independent. In October 2015, Tessa Laws was appointed a Chairman. Samuel Vlodinger was assessed by the Board to be considered independent director and appointed to chair the audit committee.

Fiona Holmes resigned from the board with effect from December 2016 and Esti Maoz was appointed to be an external director with effect from 24 February, 2017.

2. Board conduct

Meeting summary for the year 2016:

Board –

Board meetings									
	Date								
Name of director	7/1/16	21/3/16	10/5/16	13/9/16	15/09/16	21/10/16	22/11/16	15/12/16	18/12/16
Samuel Vlodinger	+	+	+	+	+	+	+	+	
Fiona Holmes	+	+	+	+	+		+		
Donald Stewart	+	+	+	+	+	+	+	+	+
Tessa Laws	+	+	+	+	+	+	+	+	+
Marc Zalcman	+	+	+	+	+	+	+	+	
Eran Itzhak	+	+	+	+	+	+	+	+	+
Yehuda Cohen	+	+	+	+	+	+	+	+	+

Audit committee –

Audit Committee				
	Date			
Name of director	07/01/16	21/03/16	13/09/16	15/09/16
Samuel Vlodinger	+	+	+	+
Fiona Holmes	+	+	+	+
Donald Stewart	+	+	+	+

Remuneration Committee-

Remuneration Committee		
	Date	
Name of director	13/09/16	15/09/16
Fiona Holmes	+	+
Samuel Vlodinger	+	+
Donald Stewart	+	+

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

Following the admission to trading on AIM ("Admission"), the Audit Committee comprised of George Adams, Tessa Laws and Fiona Holmes and was chaired by George Adams. In October 2015 Donald Stewart and Samuel Vlodinger replaced Tessa and George and the Audit Committee is chaired by Samuel Vlodinger. Esti Maoz was appointed to be an external director and a member of the Audit Committee with effect from 24 February, 2017.

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

Following Admission, the Remuneration Committee comprised of Tessa Laws, Fiona Holmes and George Adams and was chaired by Tessa Laws. In October 2015 Donald Stewart and Samuel Vlodinger replaced Tessa and George and the Remuneration Committee is chaired by Samuel Vlodinger.

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 Code.

Esti Maoz was appointed to be an external director and a member of the Remuneration Committee with effect from 24 February, 2017.

6. Nomination Committee

Following Admission, the Nomination Committee comprised of Fiona Holmes, Tessa Laws and George Adams and chaired by Fiona Holmes. In October 2015 Donald Stewart replaced George Adams. 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 monitor the performance and suitability of the current Board on an on-going basis.

Esti Maoz was appointed to be an external director and a member of the Nomination Committee with effect from 24 February, 2017.

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-Erlich, C.P.A (Isr.) of BDO Consulting Group was nominated to be the Company’s Internal Auditor.

In accordance with the audit plan for 2016, during the first half of 2016 the Internal Auditor conducted an internal audit on sales process. The findings and recommendations of the auditor were presented to the Audit Committee and to the Board.

Additionally, during the fourth quarter of 2016 and the first quarter of 2017, the Internal Auditor conducted an internal audit on Procurement and Sourcing process. The findings and recommendations of the are expected to be presented to the Audit Committee and to the Board.

BAGIR GROUP
Global Innovative Tailoring

Independent Auditor's Report and Financial Statements 2016

For the year ended December 31, 2016

Kost Forer Gabbay & Kasierer
3 Aminadav, Tel Aviv 6706703,
Israel
Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

INDEPENDENT AUDITOR'S 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 2016 and 2015, 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 2016 and 2015, 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 audit 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 2016 and why a matter of most significance in the audit

Goodwill – impairment assessment

As of 31 December 2016, the total carrying amount of goodwill is $5.7 million. In accordance with IFRS as adopted by the European Union, the Group is required to annually test goodwill for impairment. Based on the outcome of this test, the Group concluded that there was no impairment of goodwill. This impairment test was significant to our audit due to the relatively large amount of this asset and because the assessment process is complex and judgmental and based on assumptions that are affected by expected future market or economic conditions.

<u>How our audit addressed the matter</u>

Our audit procedures included, among others, using our specialists to assist us in evaluating the assumptions and methodologies used by the Group. In particular, we assessed the recoverability of this asset by reviewing management's forecasts of revenues and profitability. We also verified the completeness and adequacy of the disclosure of the assumptions and other data in Note 13 to the consolidated financial statements.

Other information included in the Company's 2016 Annual Report

Other information consists of the information included in the Company's 2016 Annual Report other than the consolidated financial statements and our auditor's 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company'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 auditor's 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Company 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 auditor's 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 auditor's report is Yossi Dangot.

Tel Aviv, Israel	KOST FORER GABBAY & KASIERER
7 March 2017	A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	31 December 2016	31 December 2015
		U.S. dollars in thousands	
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	8,624	7,463
Short-term deposits	7	81	464
Trade receivables	8	3,972	4,143
Other receivables	9	2,288	2,051
Inventories	10	5,337	8,326
		20,302	22,447
NON-CURRENT ASSETS:			
Investment in a joint venture	11	1,580	1,994
Property, plant and equipment	12	668	650
Goodwill	13	5,689	5,689
Other intangible assets	13	3,873	5,231
Deferred taxes	24	340	304 *)
		12,150	13,868
		32,452	36,315

*) Reclassified.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	31 December 2016	31 December 2015
		U.S. dollars in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans		-	465
Trade payables	14	3,848	5,416
Other payables	15	4,618	5,831
		8,466	11,712
NON-CURRENT LIABILITIES:			
Loans from banks	16	-	20,772
Employee benefit liabilities, net	17	210	439
Payable for acquisition of subsidiary	19	2,594	2,972
		2,804	24,183
EQUITY:	22		
Share capital		3,284	576
Share premium		86,306	78,342
Capital reserve for share-based payment transactions		1,580	1,438
Capital reserve for transactions with shareholders		10,165	10,165
Adjustments arising from translation of foreign operations		(8,895)	(8,895)
Accumulated deficit		(73,204)	(83,152)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		19,236	(1,526)
Non-controlling interests		1,946	1,946
Total equity		21,182	420
		32,452	36,315

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

March 7 , 2017			
Date of approval of the financial statements	Tessa Rebecca Laws Chairman of the Board	Eran Itzhak CEO and Director	Yehuda Cohen CFO, Deputy CEO and Director

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016	Year ended 31 December 2015
		U.S. dollars in thousands	
Revenues from sales	23a	64,071	75,207
Cost of sales	23b	53,541	67,870
Gross profit		10,530	7,337
Selling and marketing expenses	23c	6,172	9,464
General and administrative expenses	23d	3,050	4,315
Development costs	23e	1,652	2,221
Other expenses, net		2	25
Operating loss		(346)	(8,688)
Finance income	23f	13,305	17
Finance expenses	23g	(2,676)	(2,975)
Company's share of losses of a joint venture	11	(414)	(49)
Income (loss) before taxes on income		9,869	(11,695)
Tax benefit	24	32	44
Net income (loss) for the year (all attributable to equity holders of the Company)		9,901	(11,651)
Other comprehensive income:			
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain on defined benefit plans		47	73
Total other comprehensive income		47	73
Total comprehensive income (loss)		9,948	(11,578)
Net income (loss) attributable to equity holders of the Company		9,901	(11,651)
Total comprehensive income (loss) attributable to equity holders of the Company		9,948	(11,578)

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2016	2015
		U.S. dollars (except share and per share data)	
Earnings per share attributable to equity holders of the Company (in dollars)	27		
Basic and diluted Earnings profit (loss) per share		0.11	(0.23)
Weighted average number of ordinary shares for basic and diluted earnings (loss) per share (in thousands)		90,231	50,377

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company								
	Share capital	Share premium	Capital reserve for share-based payment transactions	Capital reserve for transactions with shareholders	Adjustments arising from translation of foreign operations	Accumulated deficit	Total	Non-controlling interests	Total equity
	U.S. dollars in thousands								
Balance at 1 January 2015	574	78,322	1,444	10,165	(8,895)	(71,574)	10,036	1,946	11,982
Loss for the year	-	-	-	-	-	(11,651)	(11,651)	-	(11,651)
Other comprehensive income:									
Remeasurement gain on defined benefit plans	-	-	-	-	-	73	73	-	73
Total comprehensive loss	-	-	-	-	-	(11,578)	(11,578)	-	(11,578)
Exercise of options	2	20	(16)	-	-	-	6	-	6
Cost of share-based payment	-	-	10	-	-	-	10	-	10
Balance at 31 December 2015	576	78,342	1,438	10,165	(8,895)	(83,152)	(1,526)	1,946	420
Profit for the year	-	-	-	-	-	9,901	9,901	-	9,901
Other comprehensive income:									
Remeasurement gain on defined benefit plans	-	-	-	-	-	47	47	-	47
Total comprehensive income	-	-	-	-	-	9,948	9,948	-	9,948
Exercise of options	*)	38	(35)				3		3
Cost of share-based payment	-	-	177	-	-	-	177	-	177
Issue of share capital (net of issue expenses of 0.56$ million)	2,494	7,256	-	-	-	-	9,750	-	9,750
Conversion of loans from Banks into shares	214	670	-	-	-	-	884	-	884
Balance at 31 December 2016	3,284	86,306	1,580	10,165	(8,895)	(73,204)	19,236	1,946	21,182

*) Less than $1 thousands.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2016	2015
	U.S. dollars in thousands	
Cash flows from operating activities:		
Profit (loss)	9,901	(11,651)
Adjustments to reconcile profit (loss) to net cash provided by (used in) operating activities:		
Company's share of losses of a joint venture	414	49
Depreciation and amortization	1,738	4,347
Deferred taxes, net	(36)	(48)
Change in employee benefit liabilities	(182)	56
Cost of share-based payment	177	10
Loss from sale of property, plant and equipment	20	173
Finance expenses, net	1,430	1,384
Income tax benefit, net	4	4
Gain on extinguishment of debt	(13,305)	-
	(9,740)	5,975
Changes in asset and liability items:		
Decrease in trade receivables	171	6,104
Decrease (increase) in other receivables	(319)	829
Decrease in inventories	2,989	2,053
Decrease in trade payables	(1,568)	(1,935)
Decrease in other payables	(516)	(300)
	757	6,751
Cash paid during the year for:		
Interest paid	(978)	(1,100)
Taxes paid	-	(4)
	(978)	(1,104)
Net cash used in operating activities	(60)	(29)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December	
	2016	2015
	U.S. dollars in thousands	
Cash flows from investing activities:		
Investment in joint venture	-	(228)
Purchase of property, plant and equipment	(375)	(112)
Addition to intangible assets	(43)	(617)
Purchase of short-term investments, net	(5)	(67)
Release of pledged bank deposits	387	-
Net cash used in investing activities	(36)	(1,024)
Cash flows from financing activities:		
Issue of shares, net of expenses	9,750	-
Exercise of options	3	6
Receipt of loans from banks	-	21,237
Repayment of long-term liabilities from banks	(6,988)	(14,025)
Decrease in short-term credit, net	-	(9,880)
Short-term advance from (repayment to) joint venture	(708)	708
Payment of liability for acquisition of subsidiary	(800)	(950)
Net cash provided by (used in) financing activities	1,257	(2,904)
Increase (decrease) in cash and cash equivalents	1,161	(3,957)
Cash and cash equivalents at the beginning of the year	7,463	11,420
Balance of cash and cash equivalents at the end of the year	8,624	7,463
Non-cash transactions:		
Issuance of shares upon extinguishment of loans from Banks into shares	884	-
Liability for acquisition of subsidiary	-	3,446
Investment in a joint venture	-	50

The accompanying notes are an integral part of the 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 Headquarters are located in Kiryat Gat, Israel. The Group's products are manufactured by a subsidiary and subcontractors. The Group's products are marketed in Europe (mainly in the U.K.), the U.S. and in other countries. As for operating segments, see Note 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 November 2016 the Company completed a restructuring of its debt and equity such that all of its debt to Banks was extinguished in consideration for the issuance of shares and partial repayment, which repayment was funded by an issuance of shares in a private placement – see Notes 16 and 22 for details.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU"). The financial statements have been prepared on a cost basis, other than derivative financial instruments and employee benefits liability and plan assets.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

c. 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.

d. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

e. 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.

f. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

The financial statements are presented in U.S. dollars, the Company's functional currency.
The functional currency is the currency that best reflects the economic environment in which an entity operates and conducts its transactions, it is separately determined for each Group entity and is used to measure its financial position and operating results.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Functional currency, presentation currency and foreign currency: (Cont.)

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

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

2. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency (other than the functional currency) are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

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

	Representative exchange rate	
As of	**£ 1**	**NIS 1**
	U.S. dollars	
31 December 2016	1.229	0.26
31 December 2015	1.482	0.256
Change	**%**	**%**
Year ended 31 December 2016	(17.0)	1.5
Year ended 31 December 2015	(4.9)	(0.3)

g. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. 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.

i. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful.

The Company did not recognize an allowance in respect of groups of trade receivables that are collectively assessed for impairment due to immateriality.
Impaired receivables are derecognized when they are assessed as uncollectible.

j. 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.

k. Financial instruments:

1. Financial assets:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

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

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

b) Loans and receivables:

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

2. Financial liabilities:

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

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

Financial liabilities at amortized cost:

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

3. Derecognition of financial instruments:

a) Financial assets:

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

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Financial instruments: (Cont.)

3. Derecognition of financial instruments: (Cont.)

If the Company transfers its rights to receive cash flows from an asset and neither transfers nor retains substantially all the risks and rewards of the asset nor transfers control of the asset, a new asset is recognized to the extent of the Company's continuing involvement in the asset. When continuing involvement takes the form of guaranteeing the transferred asset, the extent of the continuing involvement is the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

b) Financial liabilities:

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

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

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

4. Impairment of financial assets:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

l. Derivative financial instruments:

The Group enters into contracts for derivative financial instruments such as forward currency contracts and interest rate swaps to hedge risks associated with foreign exchange rates and interest rate fluctuations. Such derivative financial instruments that do not qualify for hedge accounting are initially recognized at fair value at the inception of the contract for derivative and are subsequently remeasured at fair value. Changes in the fair value of these instruments are recorded immediately in profit or loss.

The fair value of forward currency contracts is measured by reference to existing exchange rates for contracts with similar maturity dates.

m. 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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).

n. Leases:

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

Operating leases - the Group as lessee:

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

o. 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	7 - 12	10
Motor vehicles	15 - 20	15
Office furniture and equipment	6 - 33	7
Leasehold improvements	over the lease term (see below)	

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

p. Intangible assets:

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

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

Development expenditures:

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

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

Software:

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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	3-5
Controlling rights acquired (see Note 5)	7
Software	10

q. 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.

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Impairment losses recognized for goodwill cannot be reversed in subsequent periods.

2. Investment in a joint venture:

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

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

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

r. Taxes on income:

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

1. Current taxes:

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

2. Deferred taxes:

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

Deferred tax balances are measured at the tax rate that is expected to apply when the taxes are reversed in profit or loss or equity, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

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

Taxes that would apply in the event of the disposal of investments in investees have not been taken into account in computing deferred taxes, as long as the disposal of the investments in investees is not probable in the foreseeable future. Also, deferred

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

s. 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.

t. Employee benefits liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

t. Employee benefits liabilities (cont.):

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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

u. Revenue recognition:

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns. Current customer discounts are recognized in the financial statements when granted and are deducted from sales**.**

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:

Revenues from the sale of goods are recognized when all the significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

Interest income:

Interest income is recognized as it accrues using the effective interest method.

v. 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.

w. 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.

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 and also to choose a suitable discount rate for those cash flows. See Note 13 (c) for key assumptions.

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. IFRS 15 ("the new Standard") was issued by the IASB in May 2014.

The new Standard replaces IAS 18, "Revenue", IAS 11, "Construction Contracts", IFRIC 13, "Customer Loyalty Programs", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers" and SIC-31, "Revenue - Barter Transactions Involving Advertising Services".

The new Standard introduces a five-step model that will apply to revenue earned from contracts with customers:

Step 1: *Identify the contract with a customer*, including reference to contract combination and accounting for contract modifications.

Step 2: *Identify the separate performance obligations in the contract*

Step 3: *Determine the transaction price*, including reference to variable consideration, financing components that are significant to the contract, non-cash consideration and any consideration payable to the customer.

Step 4: *Allocate the transaction price to the separate performance obligations* on a relative stand-alone selling price basis using observable information, if it is available, or using estimates and assessments.

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

Step 5: *Recognize revenue when a performance obligation is satisfied*, either at a point in time or over time.

The new Standard is to be applied retrospectively for annual periods beginning on January 1, 2018. Early adoption is permitted. At this stage, the Company does not intend to adopt IFRS 15 early.

The new Standard allows the option of modified retrospective adoption with certain reliefs according to which the new Standard will be applied to existing contracts from the initial period of adoption and thereafter with no restatement of comparative data. Under this option, the Company will recognize the cumulative effect of the initial adoption of the new Standard as an adjustment to the opening balance of retained earnings (or another component of equity, as applicable) as of the date of initial application. Alternatively, the new Standard permits full retrospective adoption with certain reliefs.

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

b. IFRS 9, "Financial Instruments":

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

According to IFRS 9, all financial assets are measured at fair value upon initial recognition. In subsequent periods, debt instruments are measured at amortized cost only if certain conditions are met. Subsequent measurement of all other debt instruments and financial assets should be at fair value.

According to IFRS 9, the provisions of IAS 39 will continue to apply to de recognition and to financial liabilities for which the fair value option has not been elected. IFRS 9 also prescribes new hedge accounting requirements.

IFRS 9 is to be applied for annual periods beginning on January 1, 2018. Early adoption is permitted.

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

d. Amendments to IFRS 10 and IAS 28 regarding sale or transfer of assets between an investor and its associate or joint venture:

In September 2014, the IASB issued amendments to IFRS 10 and IAS 28 ("the amendments") regarding the accounting treatment of the sale or transfer of assets (an asset, a group of assets or a subsidiary) between an investor and its associate or joint venture.

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

According to the amendments, when the investor loses control of a subsidiary or a group of assets that are not a business in a transaction with its associate or joint venture, the gain will be partially eliminated so that the gain to be recognized is the gain from the sale to the other investors in the associate or joint venture. According to the amendments, if the remaining rights held by the investor represent a financial asset as defined in IFRS 9, the gain will be recognized in full.

If the transaction with an associate or joint venture involves loss of control of a subsidiary or a group of assets that are a business, the gain will be recognized in full.

The amendments are to be applied prospectively. A mandatory effective date has not yet been determined by the IASB but early adoption is permitted.

d. Amendments to IAS 7, "Statement of Cash Flows", regarding additional disclosures of financial liabilities:

In January 2016, the IASB issued amendments to IAS 7, "Statement of Cash Flows", ("the amendments") which require providing additional disclosures of financial liabilities. The amendments require presenting the movement between the opening balance and the closing balance of financial liabilities, including changes arising from cash flows from financing activities, changes arising from obtaining or losing control in investees, the effect of changes in foreign exchange rates and changes in fair value.

The amendments are effective for annual periods beginning on or after January 1, 2017. No disclosure is required for comparative figures in previous periods before the effective date of the amendments. Earlier application is permitted.

The Company will include the necessary disclosures in the financial statements when applicable.

e. IFRS 16, "Leases":

In January 2016, the IASB issued IFRS 16, "Leases", ("the new Standard"). According to the new Standard, a lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

According to the new Standard, lessees are required to recognize an asset and a corresponding liability in the statement of financial position in respect of all leases (except in certain cases) similar to the accounting treatment of finance leases according to the existing IAS 17, "Leases".

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Company believes that the new Standard is not expected to have a material impact on the financial statements.

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 of the payment of 4% of the sales revenues of the Egyptian company to the Egyptian partner but not more than $ 900 thousand a year and not less than $ 800 thousand a year for 2009 and 2010, and a fixed amount of $ 1 million for each of the years 2011 to 2015. Over the term of the agreement, the control and management of the Egyptian company will be in the hands of the Company and it shall bear all costs and entitled to all profits relating to the Egyptian company. As a result of this agreement, since 1 January 2009, the Company fully consolidates the financial statements of the Egyptian company.

On 1 July 2015, the Company signed an extension of the agreement with the Egyptian partner whereby the Company will continue to control and manage the subsidiary for an additional period of 7 years starting 1 July 2015, in consideration for a fixed annual payment of $ 800 thousand. Accordingly, the Company will continue to fully consolidate the financial statements of the Egyptian subsidiary. At that date, the Company's management estimated that the fair value of the assets of the Egyptian company approximated their carrying amount. The Company recognized a liability in the amount of the present value of the future fixed annual payments discounted at rate of 15.7 % and, simultaneously, recognized an intangible asset ("controlling rights") in the amount of $ $3,446 thousand that is amortized over the term of the agreement (7 years) (see also Note 19).

NOTE 6:- CASH AND CASH EQUIVALENTS

	31 December	
	2016	**2015**
	U.S. dollars in thousands	
Cash in banks:		
In U.S. dollars	8,410	6,513
In GBP	97	711
In other currencies	117	239
	8,624	7,463

NOTE 7:- SHORT-TERM DEPOSITS

	Annual interest rate (1)	31 December	
	2016	**2016**	**2015**
	%	**U.S. dollars in thousands**	
In U.S. dollars	0.01	60	55
In New Israeli Shekel (NIS)		21	409
		81	464

(1) The above interest rates are the weighted average rates as of 31 December 2016.

NOTE 8:- TRADE RECEIVABLES

	31 December 2016	31 December 2015
	U.S. dollars in thousands	
Open accounts	3,977	4,157
Less - allowance for doubtful accounts	5	14
	3,972	4,143

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	Total
	U.S. dollars in thousands					
31 December 2016	3,024	713	228	-	7	3,972
31 December 2015	3,546	73	434	58	32	4,143

See Note 21 for credit risk of trade receivables and Note 23 for revenues from sales to major customers.

NOTE 9:- OTHER RECEIVABLES

	31 December 2016	31 December 2015
	U.S. dollars in thousands	
Prepaid expenses	204	191
Government authorities	437	885
Advances to suppliers	1,360	525
Other receivables	287	450
	2,288	2,051

NOTE 10:- INVENTORIES

	31 December 2016	31 December 2015
	U.S. dollars in thousands	
Finished products	728	1,758
Work in progress	671	689
Raw and auxiliary materials	1,961	2,556
Parts	198	225
Inventories in transit	1,779	3,098
	5,337	8,326

Write down of inventories recorded in cost of sales totaled $ 487 thousand (2015- $ 834 thousand).

NOTE 11:- INVESTMENT IN A JOINT VENTURE

On 31 July 2014, the Company signed an agreement with a company in Ethiopia, Nazareth Garment Share Company ("Nazareth"), and the Nazareth shareholders according to which the Company will purchase a 50% interest in the Nazareth for a total cash consideration of $ 1.5 million, of which $ 1.2 million will be an equity injection in Nazareth and the balance will be paid to the Nazareth shareholders. The closing date of the transaction was in the beginning of November 2014.

For details about acquisition of the remaining 50% of Nazareth shares after the reporting date see Note 30 (a).

Nazareth has a factory that manufactures tailored clothing. The agreement stipulates that the substantial majority of the Nazareth products will be sold to the Company. Following this investment, the factory will undertake certain upgrades to its production facilities to enable the production of high quality trousers and jackets for export into the global market.

1. Movement:

	U.S dollars in thousands
Balance at 1 January 2015	1,765
Investment in a joint venture	278
Company's share of losses	(49)
Balance at 31 December 2015	1,994
Company's share of losses	(414)
Balance at 31 December 2016	1,580

2. Summarized operating results of joint venture:

	For the year ended 31 December 2016	For the year ended 31 December 2015
	U.S dollars in thousands	
Revenues	980	1,503
Expenses	1,480	1,497
Net income (loss)	(500)	6
Holding rate in the joint venture	50%	50%
	(250)	3
Depreciation and amortization of fair value adjustments on acquisition	(164)	(52)
	(414)	(49)

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NOTE 12:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

2016:	Machinery and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost (1):					
Balance at 1 January 2016	7,291	77	1,200	1,109	9,677
Additions during the year	294	-	37	44	375
Disposals during the year	-	-	(24)	(132)	(156)
Balance at 31 December 2016	7,585	77	1,213	1,021	9,896
Accumulated depreciation:					
Balance at 1 January 2016	6,876	66	1,060	1,025	9,027
Additions during the years	165	4	97	71	337
Disposals during the year	-	-	(23)	(113)	(136)
Balance at 31 December 2016	7,041	70	1,134	983	9,228
Depreciated cost at 31 December 2016	544	7	79	38	668

2015:	Machinery and equipment	Motor vehicles	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
Cost (1):					
Balance at 1 January 2015	13,503	114	1,590	1,085	16,292
Additions during the year	32	-	56	24	112
Disposals during the year	(6,244)	(37)	(446)	-	(6,727)
Balance at 31 December 2015	7,291	77	1,200	1,109	9,677
Accumulated depreciation:					
Balance at 1 January 2015	12,672	97	1,233	982	14,984
Additions during the years	366	6	132	43	547
Disposals during the year	(6,162)	(37)	(305)	-	(6,504)
Balance at 31 December 2015	6,876	66	1,060	1,025	9,027
Depreciated cost at 31 December 2015	415	11	140	84	650

(1) 2016 - Fully depreciated assets that are still in use amount to approximately \$ 5.9 million (2015- \$ 5.6 million).

NOTE 13:- GOODWILL AND OTHER INTANGIBLE ASSETS

a. Composition and movement:

2016:	Software	Customer relationships	Development costs - novel products (1)(2)	Controlling rights (3)	Goodwill	Total
	U.S. dollars in thousands					
Cost:						
Balance at 1 January 2016	540	8,487	6,052	3,446	25,447	43,972
Additions during the year	43	-	-	-	-	43
Balance at 31 December 2016	583	8,487	6,052	3,446	25,447	44,015
Accumulated amortization and impairment:						
Balance at 1 January 2016	-	7,215	5,832	247	19,758	33,052
Amortization recognized during the period	60	849	-	492	-	1,401
Balance at 31 December 2016	60	8,064	5,832	739	19,758	34,453
Net book value:						
At 31 December 2016	523	423	220	2,707	5,689	9,562

2015:	Software	Customer relationships	Development costs - novel products (1)(2)	Controlling rights (3)	Goodwill	Total
	U.S. dollars in thousands					
Cost:						
Balance at 1 January 2015	-	8,487	5,975	5,637	25,447	45,546
Additions during the year	540	-	77	3,446	-	4,063
Elimination of fully amortized assets	-	-	-	(5,637)	-	(5,637)
Balance at 31 December 2015	540	8,487	6,052	3,446	25,447	43,972
Accumulated amortization and impairment:						
Balance at 1 January 2015	-	6,366	3,564	5,201	19,758	34,889
Amortization recognized during the period	-	849	866	683	-	2,398
Impairment loss (1)	-	-	1,402	-	-	1,402
Elimination of fully amortized assets	-	-	-	(5,637)	-	(5,637)
Balance at 31 December 2015	-	7,215	5,832	247	19,758	33,052
Net book value:						
At 31 December 2015	540	1,272	220	3,199	5,689	10,920

(1) Impairment of development cost-novel products

The impairment loss in 2015 of $1.4 million represents the write-off of the balance of development costs of certain products based on management's determination that the Group is no longer expected to benefit from future sales of those novel products. This impairment loss was recognized in profit or loss under cost of sales. In 2016, no impairment loss was recognized.

(2) In 2016, no development costs were capitalized. Development costs at 31 December 2016 and 2015 include costs of projects in progress amounting to $0.2 million and $ 0.1 million respectively

NOTE 13:- GOODWILL AND OTHER INTANGIBLE ASSETS (Cont.)

(3) See Note 5.

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

	Year ended 31 December	
	2016	2015
	U.S. dollars in thousands	
Cost of sales	492	2, 951
Selling and marketing expenses	892	849
General and administrative expenses	17	-
Total	1,401	3,800

c. Impairment testing of goodwill:

Following are the carrying amounts of goodwill allocated to geographical segments as of 31 December 2016:

	U.S. dollars in thousands
Europe (mainly the U.K.)	999
U.S.	4,690
	5,689

The recoverable amount of the segments were determined based on a value in use calculation using valuations performed by an independent valuation specialist based on management's estimate of the future cash flows expected to be generated from the performances of the segments. The estimated cash flows are based on budgets covering a 5-year period.

Key assumptions used in calculating the value in use for the year ended 31 December, 2016:

	Europe mainly U.K.		U.S.	
	%			
	2016	2015	2016	2015
Gross profit- for the period of the 5-year budget	11.1	18.8	18.7	20
Discount rate (before tax)	17	17.8	21	21.1

As of 31 December 2016 the recoverable amount of each of the segments exceeds their carrying amount.

Sensitivity to changes in assumptions

The Company believes that no reasonably possible change in a key assumption used to determine the segment's recoverable amounts would cause the segment's carrying amounts to exceed their recoverable amounts.

NOTE 14:- TRADE PAYABLES

	31 December 2016	31 December 2015
	U.S. dollars in thousands	
Open accounts:		
In U.S. dollars	3,458	4,261
In GBP	135	345
In NIS	254	325
In other currency	1	485
	3,848	5,416

NOTE 15:- OTHER PAYABLES

	31 December 2016	31 December 2015
	U.S. dollars in thousands	
Payroll and related expenses	1,062	1,142
Payable for acquisition of subsidiary (1)	579	527
Obligation relating to lease agreement (2)	367	655
Income taxes payable	364	362
Short- term advance from joint venture	-	708
Accrued expenses and other	2,246	2,437
	4,618	5,831

(1) See Note 19.
(2) See Note 18.

NOTE 16:- LOANS FROM BANKS

a. Amendments to financing agreements in 2016:

In July, 2016, the Company signed an agreement with its lenders, Bank Leumi and Bank Discount (the "Banks"), to extinguish all outstanding bank debt (approximately $ 21 million). According to the agreement, the extinguishment was subject to the fulfillment of the following conditions pro rata before 31 December - 2016:

(1) Cash repayment of $6.3 million to be funded from a Private Placement ("Cash Payment").
(2) Allocation of 8.33% of the Company's total issued share capital, post the completion of the Private Placement, to the Banks.

The Private Placement was completed in October 2016 - see Note 22(c).

In October 2016, upon receipt of the Cash Payment and the issuance of 20,551,247 Ordinary Shares to the Banks, each of the Banks extinguished the remaining balance of the debt and all other obligations and liabilities of the Group to the Banks, including all liens, mortgages and guarantees created in favor of the Banks.

NOTE 16:- LOANS FROM BANKS (Cont.)

Pursuant to the agreement, if the Group generates annual consolidated EBITDA above $6.5 million in the years 2016 to 2024, the Banks will be entitled to an additional payment equal to 50% of the annual consolidated EBITDA in excess of $6.5 million, up to a maximum aggregate payment of $8 million (the "Contingent Payment"). As of 31 December 2016, based on current management forecasts, no liability has been recorded in respect of the Contingent Payment.

The difference between the carrying amount of the debt and the sum of the Cash Payment and the fair value of the Ordinary Shares issued to the Banks, in the approximate amount of $13.3 million was recorded as a gain on extinguishment of debt in finance income.

NOTE 17:- 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	
	2016	**2015**
	U.S. dollars in thousands	
Expenses in respect of defined contribution plans	224	323

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

NOTE 17:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

2. Defined benefit plans: (Cont.)

Which an employee benefit liability is recognized and for which the Group deposits amounts in qualifying insurance policies.

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

2016:

	Balance at 1 January 2015	Expenses recognized in profit or loss: Current service cost	Net interest expense	Past service cost and effect of settlements	Effect of changes in foreign exchange rates	Adjustments	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 2016
	U.S. dollars in thousands										
Defined benefit obligation	(1,615)	(46)	(63)	27	211	-	129	591	94	-	(801)
Fair value of plan assets	1,176	-	32	(26)	19	-	25	(591)	(47)	28	591
Net defined benefit asset (liability)	(439)	(46)	(31)	1	230	-	154	-	47	28	(210)

2015:

	Balance at 1 January 2015	Expenses recognized in profit or loss: Current service cost	Net interest expense	Past service cost and effect of settlements	Effect of changes in foreign exchange rates	Adjustments	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 2015
	U.S. dollars in thousands										
Defined benefit obligation	(1,648)	(99)	(70)	24	32	(4)	(117)	116	34	-	(1,615)
Fair value of plan assets	1,192	-	38	(21)	-	-	17	(103)	39	31	1,176
Net defined benefit asset (liability)	(456)	(99)	(32)	3	32	(4)	(100)	13	73	31	(439)

NOTE 17:- 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	
	2016	2015
	U.S. dollars in thousands	
Defined benefit obligation	(801)	(1,615)
Fair value of plan assets	591	1,176
Total liabilities, net	(210)	(439)

d. The key assumptions used in defined benefit plan:

	31 December	
	2016	2015
	%	
Discount rate of the plan liability (1)	2.85	3.47
Rate of increase in the Israeli CPI	1.05	1.26
Expected rate of return on plan assets	1.88	2.19
Expected salary increases	4.52	5.05
Employee turnover rate (2)		

(1) Market yields on high quality corporate bonds.
(2) Employee turnover rates in 2016 and in 2015 are 20%, 15%, 10%, 5% in the following age ranges 18-35, 36-45, 46-50, 51-retirment, respectively.

NOTE 17:- EMPLOYEE BENEFIT LIABILITIES, NET (Cont.)

2. Defined benefit plans: (Cont.)

e. Amount, timing and uncertainty of future cash flows:

Any reasonably possible changes at the end of the reporting period in each actuarial assumption assuming that all other actuarial assumptions are constant would have had the following effects:

	31 December	
	2016	2015
	U.S. dollars in thousands	
Sensitivity test for changes in the expected salary increases:		
Salary increases - effect of change of 10% in the base assumption detailed in 4 above:		
Increase	-	15
Decrease	-	(12)
Sensitivity test for changes in the discount rate of the plan assets and liability:		
The change as a result of:		
Increase of 1% in discount rate	(1)	(57)
Decrease of 1% in discount rate	2	65

NOTE 18:- OBLIGATION RELATING TO LEASE AGREEMENT

a. In 2013, the Company reached a settlement regarding a lease agreement of a subsidiary in the U.K. according to which the Company would make certain payments over a period ending in January 2016. These amounts bear no interest. The obligation recorded in respect of those payments was discounted at an annual interest rate of 5%. In October 2014, the settlement was revised to extend the payment schedule to February 2016. In April, 2015, the settlement was revised to postpone the repayments by six months so that they recommence in October 2015, with monthly payments of GBP 50 thousand. In addition to these monthly payments, the Company agreed to pay interest of GBP 16 thousand in December 2015. In November 2016, the parties agreed and signed on a new repayment schedule according to which the Company will make monthly payments of GBP 25 thousand ending November, 2017. In November, 2016, the Company also paid interest of GBP 15 thousand on the outstanding balance.

b. Composition:

	31 December	
	2016	2015
	U.S. dollars in thousands	
Obligation relating to lease agreement	367	655
Less - current maturities	367	655
	-	-

NOTE 19:- PAYABLE FOR ACQUISITION OF SUBSIDIARY

Composition:

	31 December	
	2016	2015
	U.S. dollars in thousands	
Payable for acquisition of subsidiary (1)	3,173	3,499
Less - current maturities	579	527
	2,594	2,972

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

(2) The repayment dates after the reporting date:

As of 31 December 2016:

First year	Second year	Third year	Fourth year	Fifth year and thereafter	Total
U.S. dollars in thousands					
579	639	708	787	460	3,173

NOTE 20:- COMMITMENTS AND CONTINGENCIES

1. Commitments for lease of spaces:

   (a) The Company leases areas in Israel under lease agreements for an annual rent of $ 128 thousand. The leases may be terminated with advance notice of one year. The leases also contain options for extension.

   (b) The Egyptian subsidiary leases spaces from the non-controlling interests of the subsidiary. The lease agreement is for a period ending in April 2020. The annual rent is $ 300 thousand.

   (c) A subsidiary in the U.S. leases an office building at an annual rent of $ 188 thousand (subject to adjustments). The lease agreement is for a period of five years ending in 2019. The subsidiary has subleased a portion of the property for a period ending in 2019 at an annual rent of $ 73 thousand.

   (d) A subsidiary in the U.K. leases an office building at an annual rent of $ 69 thousand. The lease agreement is for a period ending in May 2018.

2. The Company entered into an agreement with a vehicle leasing company for lease of vehicles under an operating lease. The aggregate future lease payments amount to $ 152 thousand for a period of 3 years, ending in 2019.

NOTE 20:- COMMITMENTS AND CONTINGENCIES (Cont.)

3. 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.

   Total royalties in the year ended 31 December 2016 amounted to approximately $ 124 thousand (2015- $362 thousand).

4. The Egyptian subsidiary provided bank guarantees in the amount of approximately $ 50 thousand in favor of foreign authorities.

5. Contingent Payment – see Note 16.

NOTE 21:- 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 Company's CEO, CFO and the Group's treasurer was established for operating in the foreign currency market. The Company'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 Sterling and the NIS.

      The Group has forecasted net cash flows from sale and purchase of goods in Sterling. The Group's policy is to hedge part of the cash flow exposure, as above, and for the purpose of neutralizing this exposure, the Group generally performs purchases and payments, to the extent possible, in the selling currency and to use financial instruments - forward transactions. These hedging mechanisms are executed based on the Group's targets, as they are formulated upon the preparation of the annual budget. All transactions are for less than one year. These transactions do not qualify for hedge accounting.

      As of 31 December 2016 there are no open positions in derivatives (assets). As of 31 December 2015 the fair value of the open positions in derivatives (assets) amounted to approximately $0.1 million.

NOTE 21:- FINANCIAL INSTRUMENTS (Cont.)

a. Financial risk factors: (Cont.)

2. Credit risk:

Most of the cash and cash equivalents and short-term deposits as of 31 December 2016 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/insignificance.

Trade receivables as of 31 December 2016 are from customers in the U.S. and countries of the European Union, including four major customers - one in Europe and three in the U.S. (see Note 23 (a)). The Company and certain subsidiaries insure receivables from certain customers with credit insurance. The Company also sells specific customer receivables through non-recourse factoring arrangements. The Company 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.

NOTE 21:- FINANCIAL INSTRUMENTS (Cont.)

b. Summary of liquidity risk:

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

31 December 2016:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	U.S. dollars in thousands						
Trade payables	3,848	-	-	-	-	-	3,848
Other payables	3,672	-	-	-	-	-	3,672
Payables for acquisition of subsidiary	800	800	800	800	800	600	4,600
Lease obligation	367	-	-	-	-	-	367
	8,687	800	800	800	800	600	12,487

31 December 2015:

	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	U.S. dollars in thousands						
Trade payables	5,416	-	-	-	-	-	5,416
Other payables	4,649	-	-	-	-	-	4,649
Loans from banks (including current maturities)	1,649	1,907	11,544	2,163	7,675	-	24,938
Payables for acquisition of subsidiary	1,000	800	800	800	800	1,200	5,400
Lease obligation	664	-	-	-	-	-	664
	13,378	2,707	12,344	2,963	8,475	1,200	41,067

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.

NOTE 21:- FINANCIAL INSTRUMENTS (Cont.)

d. Linkage terms of monetary balances:

	31 December 2016					31 December 2015				
	In dollars	In Sterling	In NIS	In other currencies	Total	In dollars	In Sterling	In NIS	In other currencies	Total
	U.S. dollars in thousands									
Assets:										
Cash and cash equivalents	8,410	97	60	57	8,624	6,513	711	125	114	7,463
Short-term deposits	60	-	21	-	81	55	-	409	-	464
Trade receivables	3,738	234	-	-	3,972	3,902	241	-	-	4,143
Other receivables	1,680	71	121	416	2,288	690	286	156	728	1,860
Total assets	13,888	402	202	473	14,965	11,160	1,238	690	842	13,930
Liabilities:										
Credit from banks and current maturities of long-term loans	-	-	-	-	-	465	-	-	-	465
Trade payables	3,458	135	254	1	3,848	4,261	345	325	485	5,416
Other payables	2,844	236	448	144	3,672	3,654	142	634	219	4,649
Payables for acquisition of subsidiary	3,173	-	-	-	3,173	3,499	-	-	-	3,499
Loans from banks	-	-	-	-	-	20,772	-	-	-	20,772
Lease contract liability	-	367	-	-	367	-	655	-	-	655
Total liabilities	9,475	738	702	145	11,060	32,651	1,142	959	704	35,456
Total, net	4,413	(336)	(500)	328	3,905	(21,491)	96	(269)	(138)	(21,526)

NOTE 21:- FINANCIAL INSTRUMENTS (Cont.)

e. Sensitivity tests relating to changes in market factors:

1. Sensitivity to changes in the exchange rate of the US dollar in relation to the NIS:

The following is an illustration of the effect of the changes in the exchange rate of the dollar in relation to the NIS on the income before taxes and equity assuming that all other risk factors are constant:

	Gain (loss) from the change	
	Increase of 5% in exchange rate	Decrease of 5% in exchange rate
	U.S. dollars in thousands	
2016	25	(25)
2015	11	(11)

2. Sensitivity to changes in the exchange rate of the Sterling in relation to the dollar:

The following is an illustration of the effect of the changes in the exchange rate of the GPB in relation to the dollar on the income before taxes and equity assuming that all the other risk factors are constant:

	Gain (loss) from the change	
	Increase of 5% in exchange rate	Decrease of 5% in exchange rate
	U.S. dollars in thousands	
2016	17	(17)
2015	5	(5)

NOTE 21:- FINANCIAL INSTRUMENTS (Cont.)

e. Sensitivity tests relating to changes in market factors: (Cont.)

Sensitivity tests and principal assumptions:

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

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

NOTE 22:- EQUITY

a. Composition of share capital as of:

	2016		5201	
	Authorized	**Issued and outstanding**	**Authorized**	**Issued and outstanding**
	Number of shares			
Ordinary shares of NIS 0.04 par value each	355,330,017	310,542,881	55,000,000	50,377,297

b. In January 2016, the Company issued 51,363 Ordinary Shares pursuant to an exercise of options by an employee.

c. In October 2016, as part of the agreements with the Banks, the Company undertook a Private Placement in which the Company issued 183,236,754, Ordinary shares at a price of 3.5 pence per Ordinary share. The total gross funds raised in the Private Placement was $7.9 million (expenses amounted to $ 491 thousand).

d. In October 2016, in partial consideration for the extinguishment of the debts to Banks (see Note 16), the Company issued 20,551,247 Ordinary shares to the Banks for no cash consideration. The share issuance was recorded in equity in the amount of $884 thousand based on the market price of the shares (3.5 pence per Ordinary share).

e. In December 2016, the Company issued 56,326,220 new Ordinary shares at a price of 3.5 pence per Ordinary share. The total gross funds raised was $2.4 million (net of expenses of $73 thousand).

NOTE 22:- EQUITY (Cont.)

i. 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 thousand was recorded in the Company's equity as capital reserve for transactions with shareholders.

NOTE 23:- ADDITIONAL INFORMATION TO ITEMS IN THE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
	U.S. dollars in thousands	
a. Revenues from sales to major customers:		
Customer A - the U.S	24,257	16,884
Customer B - the U.S	12,428	8,445
Customer C - the U.K.	11,467	12,081
Customer D - the U.S.	7,187	9,815
b. Cost of sales:		
Materials consumed	14,685	16,141
Payroll and related expenses	6,468	6,322
Subcontractors and subcontracted work	28,123	36,883
Depreciation, amortization and impairment loss	738	3,230
Other manufacturing expenses	2,914	3,821
	52,928	66,397
Changes in inventories	613	1,473
	53,541	67,870

NOTE 23:- ADDITIONAL INFORMATION TO ITEMS IN THE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont.)

		Year ended 31 December	
		2016	2015
		U.S. dollars in thousands	
c.	Selling and marketing expenses:		
	Payroll and related expenses	1,705	2,580
	Transportation and storage	2,384	3,896
	Depreciation and amortization	892	1,042
	Advertising	10	131
	Rent	224	261
	Bad debts and doubtful accounts	111	22
	Other	846	1,532
		6,172	9,464
d.	General and administrative expenses:		
	Payroll and related expenses	1,948	2,522
	Consulting	61	390
	Depreciation and amortization	96	43
	Other	945	1,360
		3,050	4,315
e.	Development costs:		
	Payroll and related expenses	1,404	1,829
	Material consumed	79	241
	Other	169	151
		1,652	2,221
f.	Finance income		
	Gain on extinguishment of debt to Banks	13,305	-
	Exchange rate	-	17
		13,305	17
g.	Finance expenses:		
	Long-term loans from banks	1,425	590
	Short-term loans from banks	48	502
	Other	996	1,883
		2,676	2,975

NOTE 24:- 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 25% in 2016 and 26.5% in 2015.

In January 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was approved, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from January 1, 2016. The change in tax rate did not have a material effect on the balance of deferred taxes in the Financial Statements.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

These changes in tax rates did not have a material effect on the balance of deferred taxes in the financial statements.

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 2016 the weighted tax is at the rate of about 40% (federal tax, state and city tax in the place of operation of the company).

Companies incorporated in the U.K. - 2016 - 27%.

NOTE 24:- TAXES ON INCOME (Cont.)

A company incorporated in Egypt:

The statutory tax rate in Egypt is 25%. The company operates in a free trade zone and is entitled to a full income tax exemption. 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 May 2020.

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 2012. The majority of foreign subsidiaries have received final tax assessments until 2010-2011, inclusive.

e. Losses and deductions carried forward for tax purposes:

As of 31 December 2016, carry-forward operating losses and temporary differences of the Company total approximately $ 42 million and capital tax losses total approximately $ 15 million.

As of 31 December 2016, carry-forward operating losses of foreign subsidiaries total approximately $ 7 million.

Tax benefit of approximately $ 0.4 million relating to tax losses of approximately $ 0.9 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	
	2016	2015	2016	2015
	U.S. dollars in thousands			
Deferred tax liabilities:				
Depreciable assets	20	68	(48)	(48)
Deferred tax assets:				
Carryforward tax losses	360	372	12	-
Deferred tax expense (income)			(36)	(48)

The deferred taxes are computed at the tax rate of 40% (2015 - 40%), based on the tax rates that are expected to apply upon realization.

NOTE 24:- TAXES ON INCOME (Cont.)

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

	Year ended 31 December	
	2016	2015
	U.S. dollars in thousands	
Current taxes	4	4
Deferred taxes	(36)	(48)
Taxes in respect of previous years	-	-
	(32)	(44)

The current taxes were computed at the average tax rate of about 40%.

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	
	2016	2015
	U.S. dollars in thousands	
Profit (loss) before taxes on income	9,869	(11,695)
Statutory tax rate	25%	26.5%
Tax benefit computed at the statutory tax rate	2,467	(3,099)
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	38	(58)
Nondeductible expenses	53	475
Differences in measurement basis between tax purposes and financial reporting purposes	40	(66)
Utilization of previously unrecognized tax losses	(2,729)	-
Losses for which no tax benefit has been recorded	82	2,599
Other	17	105
Tax benefit	(32)	(44)

NOTE 25:- 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	
	2016	2015
	U.S. dollars in thousands	
Equity-settled share-based payment plans	177	10

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

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

The options are to be granted at no consideration. Each option is exercisable into one Ordinary share of the Company (subject to adjustments) at an exercise price of $ 1.60 under a cashless exercise arrangement.
On 30 November 2013, 322,250 options were granted for employees of the Company and subsidiaries. The options vested in four equal tranches as follows:
The first tranche vested on the grant date, and the second, third and fourth tranches vested on 31 December 2013, 2014, 2015, respectively. The options expire 10 years from the date of grant.
The fair value of the options amounted to $ 80 thousand at the grant date.

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

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

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

NOTE 25:- SHARE-BASED PAYMENT (Cont.)

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

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

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

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

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

The options will be exercisable at an exercise price of GBP 0.035 and with a scheme length of 5 years.
The following table lists the inputs to the Monte - Carlo model used for the fair value measurement of equity-settled share options for the above plan:

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

Based on the above inputs, the fair value of the options amounted to $559 thousands at the date of the grant.
The expected life of the share options is based on historical data and is not necessarily indicative of the exercise patterns of share options that may occur in the future.

The expected volatility of the share prices is based on the average volatility of the share price of the Company (50%) and average volatility of companies with similar activity

NOTE 25:- SHARE-BASED PAYMENT (Cont.)

(50%). This reflects the assumption that the historical volatility of the share prices is reasonably indicative of expected future trends.

g. The total number of options under the Company's existing plan are 34,665,908.

h. Movement during the year:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		USD		USD
Share options outstanding at beginning of year	667,863	0.78	821,950	0.63
Share options granted during the year	33,537,036	0.043	-	-
Share options expired during the year	(189,750)	-	-	-
Share options exercised during the year	(51,363)	0.78	(154,087)	0.01
Share options outstanding at end of year	33,963,786	0.05	667,863	0.78
Share options exercisable at end of year	4,653,922	0.05	667,863	0.78

(1) The weighted average remaining contractual life for the share options outstanding as of 31 December, 2016 is 7.1 years (2015- 8.1years).

(2) The range of exercise prices for share options outstanding as of 31 December 2016 USD 0.01 for 294,250 options, USD 1.6 for 132,500 options and USD 0.043 for 33,537,036 options.

NOTE 26:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances:

As of 31 December 2016:

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

As of 31 December 2015:

	Joint Venture	Key management personnel
	U.S. dollars in thousands	
Other receivable	219	-
Other payables	708	323

NOTE 26:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)

b. Benefits to key management personnel :*)

	Year ended 31 December 2016	Year ended 31 December 2015
	U.S. dollars in thousands	
Short-term benefits	1,041	1,432
Post-employment benefits	46	105
Share-based payment	147	8
	1,234	1,545

*) Include members of the Board of Directors.

NOTE 27:- 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 2016		Year ended 31 December 2015	
Weighted number of shares *)	Profit from operations	Weighted number of shares *)	Loss from operations
In thousands	U.S. dollars in thousands	In thousands	U.S. dollars in thousands
90,231	9,901	50,377	(11,651)

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

NOTE 28:- OPERATING SEGMENTS

a. General:

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

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assess its performance. The Group's products are primarily marketed to two geographical areas: Europe and the U.S. and, accordingly, the Company has two geographical segments. The Company's activities in Europe are concentrated primarily in the U.K.

NOTE 28:- OPERATING SEGMENTS (Cont.)

b. Reporting on operating segments:

	Europe (mainly The U.K.)	U.S.	Other	Total
	U.S. dollars in thousands			
Year ended 31 December 2016:				
Total revenues from external customers	17,000	45,064	2,007	64,071
Segment operating profit (loss)	(2,690)	1,998	346	(346)
Unallocated expenses, net				(414)
Finance income, net				10,629
Income before taxes on income				9,869

	Europe (mainly The U.K.)	U.S.	Other	Total
	U.S. dollars in thousands			
Year ended 31 December 2015:				
Total revenues from external customers	35,835	36,444	2,928	75,207
Segment operating profit (loss)	(8,773)	(604)	689	(8,688)
Unallocated expenses, net				(49)
Finance expense, net				(2,958)
Loss before taxes on income				(11,695)

c. Additional information:

	Year ended 31 December	
	2016	2015
	U.S. dollars in thousands	
1. Capital expenditures:		
U.K.	62	324
U.S.	356	3,851
	418	4,175
2. Depreciation, amortization and impairment loss:		
U.K.	513	1,909
U.S.	1,225	2,438
	1,738	4,347

NOTE 28:- OPERATING SEGMENTS (Cont.)

d. 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 2016	31 December 2015
	U.S. dollars in thousands	
Israel	2,532	4,002
U.K.	1,018	1,056
U.S.	6,183	6,206
Other	497	306
	10,230	11,570

NOTE 29:- LIST OF INVESTEES

	2016 Shares conferring voting rights	2016 Shares conferring rights to profits	2015 Shares conferring voting rights	2015 Shares conferring rights to profits
	%			
Active companies				
Subsidiaries				
Bagir Holdings (UK) Limited,	100	100	100	100
Bagir (BVI) Limited, British Virgin Islands (a subsidiary of Bagir Holding Limited U.K.)	100	100	100	100
Bagir International, Inc., U.S. (a subsidiary of Bagir Holding Limited U.K.)	100	100	100	100
Middle East Tailoring Company SAE, Egypt (owned by Bagir (BVI))	100	*) 50	100	*) 50
Dalian Bagir Far East Trading Company, China **)	100	100	100	100
Joint venture				
Nazareth Garments Share Company, Ethiopia (see Note 11 and Note 30(a))	50	50	50	50
Inactive companies				
World Wide Fashion Textil Sirketi, Turkey	100	100	100	100
Bagir Confecceos Lda, Portugal	100	100	100	100

*) See Note 5.
**) In liquidation

NOTE 30:- SUBSEQUENT EVENTS

a. In February, 2017, the Company signed an agreement to acquire the remaining 50% of its investment in the joint venture. Following this acquisition, the Company will hold 100% of the joint venture.
According to the agreement, the Company will pay to the sellers $1.9 million in two payments – $0.6 million will be paid as an advance for the sellers and the remaining $1.3 million will be paid at the closing date of the agreement.
In addition, according to the agreement, and prior to the closing, the Company has committed to invest approximately $0.6 million in the joint venture. For this investment, the Company will receive a total of 12,000 ordinary shares of the joint venture which will increase the Company's holding in the joint venture to approximately 62%.
The acquisition is conditional on fulfillment of certain procedural matters that are estimated to be completed on or before the end of April, 2017.

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