4 April 2019

# Bagir Group Ltd.

("Bagir" or the "Company")

# Final Results

Bagir (**AIM: BAGR**), a designer, creator and provider of innovative tailoring, announces its final results for the year ended 31 December 2018.

**2018 Highlights**

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

* The Adjusted EBITDA is a non-IFRS measure that the Company uses to measure its performance. It is defined as Earnings Before Interest, Taxation, Depreciation and Amortisation, non-cash share based compensation and excluding other expenses/income. In 2018 the Adjusted EBITDA figure, excluding $0.9m reorganization expenses, net of other expenses (in 2017 the Adjusted EBITDA figure, excluding $0.9m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses).

**Outlook**

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

**Commenting on the results, CEO Eran Itzhak, said:** "We have begun this year well with sales of $16.3m already recorded for the first 3 months, a 46% increase compared to the prior year. This, together with the benefits coming through from the cost reductions made last year and the $30.6m backlog of orders, means the Company is well placed for 2019."

**Enquiries:**


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|---|---|
| **Bagir Group Limited** | +44 (0) 20 7284 7133 |
| Eran Itzhak, Chief Executive Officer | |
| Dotan Levy, Chief Financial Officer | |
| Tessa Laws, Non-Executive Chairman | |
| **N+1 Singer (Nominated Adviser & Broker)** | +44 (0)20 7496 3000 |
| Mark Taylor | |
| James Moat | |
| **Novella Communications (Financial PR)** | +44 (0)20 3151 7008 |
| Tim Robertson | |
| Toby Andrews | |


**Strategic and Financial Review**

**Introduction**

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

**Operational review**

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

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

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

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

As announced in the interim results in September 2018, the Company was seeking to make cost savings of approximately $5.0 million on an annualized basis. This was, in part, to be achieved by ceasing the Company's activities in the UK and focusing on the larger US market. Since then, the Company has secured major apparel contracts with leading UK retailers from which the net contributions are expected to outweigh the benefits of the proposed cost reductions. The Company will therefore maintain a UK office, albeit with a smaller team, to service these key clients.

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

**Financial results**

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

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

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

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

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

In 2017, the Company adopted IFRS 16 new accounting standard with regard to leasing contracts. According to the standard, leasing contracts for longer than 12 months are presented as an asset and a liability in the financial statements at their fair value and depreciated over the contract period. As a consequence of implementing this new accounting standard, the depreciation costs in 2018 and 2017 increased by c$0.6m.

In 2018, the Company had one off expenses of $1.1m, of which $0.9m relates to one off charges in implementing the Company's cost reduction and efficiency program.

As a result, the operating loss for 2018 amounted to $3.8m compared with a loss of $0.6m in 2017.

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

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

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

* The Adjusted EBITDA is a non-IFRS measure that the Company uses to measure its performance. It is defined as Earnings Before Interest, Taxation, Depreciation and Amortisation, non-cash share based compensation and excluding other expenses/income. In 2018 the Adjusted EBITDA figure,

excluded $0.9m of reorganisation expenses, net of other expenses (in 2017 the Adjusted EBITDA figure, excluded $0.9m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses).

**The Adjusted Net Loss is a non-IFRS measure that the Company uses to measure its performance. It is defined as loss for the year excluding other expenses/income. In 2018 the Adjusted EBITDA figure, excluded $0.9m of reorganisation expenses, net of other expenses (in 2017 the Adjusted EBITDA figure, excluded $0.9m one-off capital gain attributable to the acquisition in Ethiopia, net of other expenses)

**Strategic Partnership with Shandong Ruyi**

On 23 November 2017, the Company announced that it had signed a proposed strategic partnership with Shangdong Ruyi, a leading Asian global textile manufacturer, alongside a proposed investment of $16.5 million to acquire c.54%

(c. 51% fully diluted) of the Company's enlarged issued share capital.

Founded in 1972 and headquartered in Jining, Shandong, the Shandong Ruyi Group is one of the largest textile enterprises in China and ranks among the Top 100 Chinese multi-national companies. The Shandong Ruyi Group predominately engages in textile offerings, using wool, cotton, ecological fibers and synthetic fibres, and owns a fully-integrated value chain with operations spanning across raw materials cultivation, textiles processing, and design and sale of brands and apparel.

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

On October 9th 2018, the proposed investment by Shandong Ruyi was approved by shareholders. Following this, on December 31st 2018, it was announced that a new unconditional date, of 30 May 2019, had been agreed by which Shandong Ruyi will have paid to Bagir the remaining cash payment of $13.2m. All other conditions relating to the transaction have been completed.

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

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

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

**Board changes in 2018**

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

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

Yehuda Cohen stepped down as a Chief Financial Officer, Deputy CEO and director, with effect from March 2019 and the Board reiterates its thanks to him for his contribution to Bagir over the last 7 years. Dotan Levy has taken on the role of interim CFO.

**Outlook**

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

Bagir will be working to complete the proposed investment with Shandong Ruyi and to then invest behind realising the additional potential of our manufacturing bases, particularly in Ethiopia, so that Bagir is in a strong position to compete for key apparel manufacturing contracts globally.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| | | U.S. dollars in thousands | |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Short-term credit and current maturities of long-term loan from bank | 15 | 9,995 | 2,294 |
| Trade payables | 16 | 7,794 | 4,933 |
| Other payables | 17 | 4,742 | 4,073 |
| | | 22,531 | 11,300 |
| NON-CURRENT LIABILITIES: | | | |
| Loan from bank | 18 | 476 | - |
| Employee benefit liabilities, net | 19 | 298 | 281 |
| Payable for acquisition of subsidiary | 20 | 1,646 | 2,154 |
| Lease liabilities | 21 | 1,557 | 580 |
| Deferred taxes | 26 | 1,147 | 1,128 |
| | | 5,124 | 4,143 |
| EQUITY: | 24 | | |
| Share capital | | 3,284 | 3,284 |
| Share premium | | 86,322 | 86,322 |
| Capital reserve for share-based payment transactions | | 1,825 | 1,741 |
| Capital reserve for transactions with shareholders | | 10,165 | 10,165 |
| Adjustments arising from translation of foreign operations | | (9,624) | (9,624) |
| Receipts on account of shares | | 3,136 | - |
| Reserve from transactions with non-controlling interests | | 438 | - |
| Accumulated deficit | | (82,068) | (76,221) |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | 13,478 | 15,667 |
| Non-controlling interests | | 1,508 | 1,946 |
| Total equity | | 14,986 | 17,613 |
| | | 42,641 | 33,056 |

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 2018 | 2017 |
|---|---|---|---|
| | | U.S. dollars in thousands | |
| Revenues from sales | 25a | 56,413 | 51,091 |
| Cost of sales | 25b | 50,894 | 43,450 |
| Gross profit | | 5,519 | 7,641 |
| Selling and marketing expenses | 25c | 4,763 | 5,026 |
| General and administrative expenses | 25d | 2,608 | 3,299 |
| Development costs | 25e | 800 | 847 |
| Other income | 6 | - | (1,223) |
| Other expenses | 25f | 1,103 | 291 |
| Operating loss | | (3,755) | (599) |
| Finance income | 25g | 20 | 10 |
| Finance expenses | 25h | (2,040) | (2,132) |
| Company's share of losses of a joint venture | | - | (184) |
| Loss before taxes on income | | (5,775) | (2,905) |
| Tax expense | 26 | (72) | (123) |
| Loss for the year (all attributable to equity holders of the Company) | | (5,847) | (3,028) |
| Other comprehensive income (loss): | | | |
| Items to be reclassified or that are reclassified to profit or loss when specific conditions are met: | | | |
| Adjustment arising from translation of foreign operation | | - | (729) |
| Items not to be reclassified to profit or loss in subsequent periods: | | | |
| Remeasurement gain on defined benefit plans | | - | 11 |
| Total other comprehensive loss | | - | (718) |
| Total comprehensive loss | | (5,847) | (3,746) |
| Loss attributable to equity holders of the Company | | (5,847) | (3,028) |
| Total comprehensive loss attributable to equity holders of the Company | | (5,847) | (3,746) |

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

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 | Reserve from transaction with non-controlling interests | Adjustments arising from translation of foreign operations | Receipts on account of shares | Accumulated deficit | Total | Non-controlling interests | Total equity |
| | U.S. dollars in thousands | | | | | | | | | | |
| Balance at 1 January 2017 | 3,284 | 86,306 | 1,580 | 10,165 | - | (8,895) | - | (73,204) | 19,236 | 1,946 | 21,182 |
| Loss for the year | - | - | - | - | - | - | - | (3,028) | (3,028) | - | (3,028) |
| Other comprehensive income (loss): | | | | | | | | | | | |
| Adjustment arising from translation of foreign operation | - | - | - | - | - | (729) | - | - | (729) | - | (729) |
| Remeasurement gain on defined benefit plans | - | - | - | - | - | - | - | 11 | 11 | - | 11 |
| Total comprehensive loss | - | - | - | - | - | (729) | - | (3,017) | (3,746) | - | (3,746) |
| Options forfeited | - | 16 | (16) | - | - | - | - | - | - | - | - |
| Cost of share-based payment | - | - | 177 | - | - | - | - | - | 177 | - | 177 |
| Balance at 31 December 2017 | 3,284 | 86,322 | 1,741 | 10,165 | - | (9,624) | - | (76,221) | 15,667 | 1,946 | 17,613 |
| Loss and other comprehensive loss for the year | - | - | - | - | - | - | - | (5,847) | (5,847) | - | (5,847) |
| Advance payment in respect of share-capital issuance, net of related expenses (Note 1d) | - | - | - | - | - | - | 3,136 | - | 3,136 | - | 3,136 |
| Reduction of non-controlling interests (Note 5) | - | - | - | - | 438 | - | - | - | 438 | (438) | - |
| Cost of share-based payment | - | - | 84 | - | - | - | - | - | 84 | - | 84 |
| Balance at 31 December 2018 | 3,284 | 86,322 | 1,825 | 10,165 | 438 | (9,624) | 3,136 | (82,068) | 13,478 | 1,508 | 14,986 |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | U.S. dollars in thousands | |
| Cash flows from operating activities: | | |
| Loss | (5,847) | (3,028) |
| Adjustments to reconcile loss to net cash used in operating activities: | | |
| Gain from remeasurement of previous investment in joint venture | - | (1,223) |
| Company's share of losses of a joint venture | - | 184 |
| Depreciation and amortization | 1,602 | 1,926 |
| Deferred taxes, net | 68 | 173 |
| Change in employee benefit liabilities | 17 | 86 |
| Cost of share-based payment | 84 | 177 |
| Loss from sale of property, plant and equipment and other assets | 7 | 121 |
| Finance expenses, net | 1,859 | 1,515 |
| Tax expense (income tax benefit), net | 4 | (50) |
| Exchange differences on intercompany current account | - | 157 |
| | 3,641 | 3,066 |
| Changes in asset and liability items: | | |
| Decrease (increase) in trade receivables | (3,870) | 799 |
| Increase in other receivables | (547) | (710) |
| Increase in inventories | (2,157) | (1,398) |
| Increase in trade payables | 2,861 | 915 |
| Increase (decrease) in other payables | 646 | (1,193) |
| | (3,067) | (1,587) |
| Cash paid during the year for: | | |
| Interest paid | (1,397) | (1,090) |
| Interest received | - | 8 |
| Taxes paid | (4) | (298) |
| Taxes received | - | 5 |
| | (1,401) | (1,375) |
| Net cash used in operating activities | (6,674) | (2,924) |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

a) Acquisition of initially consolidated subsidiary:
The subsidiary's assets and liabilities at date of acquisition:

| | 2018 | 2017 |
|---|---|---|
| Working capital (excluding cash and cash equivalents) | - | (1,894) |
| Property, plant and equipment | - | 7,472 |
| Deferred taxes | - | (1,295) |
| Gain from remeasurement of investment in company previously accounted for at equity | - | (1,223) |
| Goodwill | - | 100 |
| Investment in company previously accounted for at equity | - | (1,349) |
| | - | 1,811 |

b) Significant non-cash transactions:

| | 2018 | 2017 |
|---|---|---|
| Waiver of receivable from partner in joint venture (see Note 6) | - | 672 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**NOTE 1:- GENERAL**

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

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

c. In January 2017, the Company signed an agreement to acquire the remaining 50% of a joint venture. In June 2017, the Company completed the acquisition for a total consideration of $2.6 million, comprised of $1.9 million in cash and $0.7 million for waiver of receivable from the partner in the joint venture. See Note 6.

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

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

e. In November 2017, the Company signed a strategic Share Purchase Agreement with a global textile manufacturer, Shandong Ruyi Technology Group Co,ltd (the Investor). According to the agreement, the Investor has committed to make an investment of $16.5 million in the Company in consideration for the issuance by the Company of 359,560,310 Ordinary shares that will represent 54% (fully diluted- 51%) of the Company’s enlarged issued share capital. The price per Ordinary share is approximately 3.5 pence per share.

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

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

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

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

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

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

b. Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group. Significant intragroup balances and transactions and gains or losses resulting from transactions between the Company and the subsidiaries are eliminated in full in the consolidated financial statements.

Non-controlling interests in a subsidiary represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Gains or losses and any component of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position.

c. Business combinations and goodwill:

Business combinations are accounted for by applying the acquisition method. The cost of the acquisition is measured at the fair value of the consideration transferred on the date of acquisition with the addition of non-controlling interests in the acquiree. In each business combination, the Company chooses whether to measure the non-controlling interests in the acquiree based on their fair value on the date of acquisition or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

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

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed.

d. Investment in a joint venture:

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

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

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

e. Functional currency, presentation currency and foreign currency:

1. Functional currency and presentation currency:

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

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

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

As of 1 January 2018, the functional currency of all of the entities in the Group is the U.S. dollar.
The functional currency is the currency that best reflects the economic environment in which an entity operates and conducts its transactions. It is separately determined

for each Group entity and is used to measure its financial position and operating results.

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

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

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

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

f. Cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of investment or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

g. Short-term deposits:

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

h. Allowance for doubtful accounts (accounting policy until 31 December 2017):

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

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

i. Inventories:

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

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

Cost of inventories is determined as follows:

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

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

Parts - using the weighted average method.

j. Financial instruments:

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

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

1. Financial assets:

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

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

Loans and receivables:

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

2. Financial liabilities:

Liabilities are initially recognized at fair value. Loans and other liabilities at amortized cost are presented net of direct transaction costs.

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

Financial liabilities at amortized cost:

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

3. Derecognition of financial instruments:

a) Financial assets:

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

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

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

b) Financial liabilities:

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

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

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

4. Impairment of financial assets:

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

Financial assets carried at amortized cost:

Objective evidence of impairment exists when one or more events that have occurred after the initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

5. Extinguishing financial liabilities with equity instruments:

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

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

1. Financial assets:

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

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

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

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

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

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

2. Impairment of financial assets:

The Company reviews at the end of each reporting period the provision for loss of financial debt instruments which are measured at amortized cost. The Company has

short-term financial assets, such as trade receivables and finance lease receivables, in respect of which the Company applies a simplified approach and measures the loss allowance in an amount equal to the lifetime expected credit losses.

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

3. Derecognition of financial assets:

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

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

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

4. Financial liabilities:

Financial liabilities measured at amortized cost:

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

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

5. Derecognition of financial liabilities:

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

k. Fair value measurement:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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

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

l. Leases:

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

a. The Group as lessee

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

Assets and liabilities arising from a lease are initially measured on a present value basis.
Lease liabilities include the net present value of the following lease payments:

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

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

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date,
- any initial direct costs, and
- restoration costs.

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

b. Subleases:

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

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

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

m. Property, plant and equipment:

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

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

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

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

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate

n. Intangible assets:

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

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

*Development expenditures:*

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

asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

n. Intangible assets: (Cont.)

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

Software:

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

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

| | **Years** |
|---|---|
| Customer relationships | 10 |
| Capitalization of development costs - novel products | 3 |
| Controlling rights acquired (see Note 5) | 7 |
| Software | 10 |

o. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In measuring value in use, the expected cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years, and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

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

1. Goodwill:

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

The Company reviews goodwill for impairment once a year as of December 31 or more frequently if events or changes in circumstances indicate that there is an impairment.

Goodwill is tested for impairment by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill has been allocated. An impairment loss is recognized if the recoverable amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is less than the carrying amount of the cash-generating unit (or group of cash-generating units). Any impairment loss is allocated first to goodwill.

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

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

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

p. Taxes on income:

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or equity.

1. Current taxes:

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

2. Deferred taxes:

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

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

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

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

Deferred taxes are offset if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

q. Share-based payment transactions:

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

*Equity-settled transactions:*

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable pricing model, additional details are given in Note 27. In estimating fair value, the vesting conditions (consisting of service conditions and performance conditions other than market conditions) are not taken into account.

The cost of equity-settled transactions is recognized in profit or loss together with a corresponding increase in equity during the period which the performance and/or service conditions are to be satisfied ending on the date on which the relevant employees become fully entitled to the award ("the vesting period"). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

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

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

r. Employee benefits liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related services. These benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

2. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans.

The Group has defined contribution plans for part of the Group's employees overseas and for part of the Group's employees in Israel pursuant to section 14 to the Severance Pay Law under which the Group pays fixed contributions and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient amounts to pay all employee benefits relating to employee service in the current and prior periods.

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services and no additional provision is required in the financial statements.

The Group also operates a defined benefit plan in respect of severance pay pursuant to the Severance Pay Law. According to the Law, employees are entitled to severance pay upon dismissal or retirement. The liability for termination of employment is measured using the projected unit credit method.

The actuarial assumptions include rates of employee turnover and expected salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields at the reporting date on high quality corporate bonds that are linked to the Consumer Price Index with a term that is consistent with the estimated term of the severance pay obligation.

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

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

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

s. Revenue recognition:

In conjunction with the early adoption of IFRS 16, the Group elected to early adopt IFRS 15, "Revenue from Contracts with Customers", in 2017. The adoption of IFRS 15 had no effect on the consolidated financial statements.

Revenue from contracts with customers is recognized in profit or loss when the control over the asset or service is transferred to the customer. Revenue is measured and recognized at the amount of the consideration that is expected to be received based on the contract terms, taking into consideration any discounts and significant financing component.

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

*Revenues from the sale of goods:*

Revenue from the sale of goods is recognized in profit or loss when the control of the goods is tranferred to the customer, generally upon delivery of the goods to the customer.

t. Provisions:

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the Group expects part or all of the expense to be reimbursed to the Company, such as in an insurance contract, the reimbursement is recognized as a separate asset only when it is virtually certain that it will be received by the Company. The expense is recognized in profit or loss net of the reimbursed amount.

u. Earnings (loss) per share:

Earnings per share are calculated by dividing the net income (loss) attributable to equity holders of the Company by the weighted number of Ordinary shares outstanding during the period. Potential Ordinary shares are included in the computation of diluted earnings per share when their conversion decreases earnings per share from continuing operations. Potential Ordinary shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share. The Company's share of earnings of investees is included based on the earnings per share of the investees multiplied by the number of shares held by the Company.

v. Changes in accounting policies - initial adoption of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards:

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

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

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

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

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

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

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

Impairment of goodwill:

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

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

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

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

In June 2017, the IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" ("the Interpretation"). The Interpretation clarifies the rules of recognition and measurement of

assets or liabilities in accordance with the provisions of IAS 12, "Income Taxes", in situations of uncertainty involving income taxes. The Interpretation provides guidance on considering whether some tax treatments should be considered collectively, examination by the tax authorities, measurement to reflect uncertainty involving income taxes in the financial statements and accounting for changes in facts and circumstances underlying the uncertainty.

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

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

(ii) Full retrospective adoption including restatement of comparative data.

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

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

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

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

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

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

c. IFRS 3, "Business Combinations":

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

The Amendment consists of the following:

1. Clarification that to meet the definition of a business, an integrated set of activities and assets must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

2. Removal of the reference to the assessment whether market participants are capable of acquiring the business and continuing to operate it and produce outputs by integrating the business with their own inputs and processes.
3. Introduction of additional guidance and examples to assist entities in assessing whether the acquired processes are substantive.
4. Narrowing the definitions of "outputs" and "business" by focusing on goods and services provided to customers.
5. Introducing an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

**NOTE 5:- INVESTMENT IN A SUBSIDIARY**

The Company, through a wholly owned subsidiary, holds an investment in a company in Egypt that was jointly owned and controlled with another Egyptian company ("the Egyptian partner"). On 1 January 2009, the Company signed an agreement with the Egyptian partner whereby the control and management will pass to the Company for a period of six and half years starting 1 January 2009 in consideration for certain payments as described in the agreement. Over the term of the agreement, the control and management of the Egyptian company will be in the hands of the Company and it shall bear all costs and entitled to all profits relating to the Egyptian company. As a result of this agreement, since 1 January 2009, the Company fully consolidates the financial statements of the Egyptian company.

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

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

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

## NOTE 6:- BUSINESS COMBINATION

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

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

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

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

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

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

Purchase consideration:

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

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

Cash flow on the acquisition:

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

## NOTE 7:- CASH AND CASH EQUIVALENTS

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

## NOTE 8:- SHORT-TERM DEPOSITS

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

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

## NOTE 9:- TRADE RECEIVABLES

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

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

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

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

| | Neither past due (nor impaired) | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|
| | | < 30 days | 30 - 60 days | 60 - 90 days | Over 90 days | Total |
| | U.S. dollars in thousands | | | | | |
| 31 December 2018 | 7,693 | 1,424 | 10 | 12 | 2 | 9,141 |

| 31 December 2017 | 3,185 | - | 7 | 1 | 10 | 3,203 |
|---|---|---|---|---|---|---|

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

## NOTE 10:- OTHER RECEIVABLES

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

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

## NOTE 11:- INVENTORIES

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

Write down of inventories recorded in cost of sales totaled $ 224 thousands (2017- $ 451 thousands).
2018 - Inventory in the amount of $3,039 thousands is pledged as security for short-term factoring arrangements, see Note 15.

## NOTE 12:- FINANCE LEASE RECEIVABLE

a. Composition:

| | 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | U.S. dollars in thousands | |
| Total | 470 | 105 |
| Less – current maturities | 64 | 77 |
| | 406 | 28 |

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

b. Movement in net investment in the lease:

| | U.S. dollars in thousands |
|---|---|
| Balance at January 1, 2018 | 105 |
| New leases | 439 |
| Lease payments received | 79 |
| Finance income | 5 |

| | |
|---|---|
| Balance at December 31, 2018 | 470 |
| Presented in the financial statements as finance lease receivables: | |
| In current assets | 64 |
| In non-current assets | 406 |

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

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

## NOTE 13:- PROPERTY, PLANT AND EQUIPMENT

Composition and movement:

| 2018: | Land and buildings (3) | Machinery and equipment | Motor vehicles | Office furniture and equipment | Leasehold improvements | Right of use leased assets (4) | Total |
|---|---|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | | | |
| Cost (1): | | | | | | | |
| Balance at 1 January 2018 | 5,310 | 9,247 | 86 | 1,204 | 929 | 1,615 | 18,391 |
| Additions during the year | - | 517 | - | 87 | 39 | 1,117 | 1,760 |
| Disposals during the year | - | (7) | - | (3) | - | (191) | (201) |
| Balance at 31 December 2018 | 5,310 | 9,757 | 86 | 1,288 | 968 | 2,541 | 19,950 |
| Accumulated depreciation: | | | | | | | |
| Balance at 1 January 2018 | 28 | 7,118 | 65 | 1,094 | 804 | 561 | 9,670 |
| Additions during the years | 58 | 227 | 4 | 78 | 47 | 551 | 965 |
| Disposals during the year | - | (7) | - | (2) | - | (185) | (194) |
| Balance at 31 December 2018 | 86 | 7,338 | 69 | 1,170 | 851 | 927 | 10,441 |
| Depreciated cost at 31 December 2018 | 5,224 | 2,419 | 17 | 118 | 117 | 1,614 | 9,509 |

| 2017: | Land and buildings | Machinery and equipment | Motor vehicles | Office furniture and equipment | Leasehold improvements | Right of use leased assets | Total |
|---|---|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | | | |
| Cost (1): | | | | | | | |
| Balance at 1 January 2017 | - | 7,585 | 77 | 1,213 | 1,021 | - | 9,896 |
| Consolidation of subsidiary (1) | 6,145 | 1,268 | 22 | 37 | - | - | 7,472 |
| Additions during the year | 16 | 663 | - | 68 | 145 | 1,615 | 2,507 |
| Exchange differences | (851) | (187) | (3) | (7) | - | - | (1,048) |
| Disposals during the year | - | (82) | (10) | (107) | (237) | - | (436) |
| Balance at 31 December 2017 | 5,310 | 9,247 | 86 | 1,204 | 929 | 1,615 | 18,391 |
| Accumulated depreciation: | | | | | | | |
| Balance at 1 January 2017 | - | 7,041 | 70 | 1,134 | 983 | - | 9,228 |
| Additions during the years | 33 | 161 | 5 | 64 | 48 | 561 | 872 |
| Exchange differences | (5) | (13) | - | - | - | - | (18) |
| Disposals during the year | - | (71) | (10) | (104) | (227) | - | (412) |
| Balance at 31 December 2017 | 28 | 7,118 | 65 | 1,094 | 804 | 561 | 9,670 |
| Depreciated cost at 31 December 2017 | 5,282 | 2,129 | 21 | 110 | 125 | 1,054 | 8,721 |

(1) See Note 6.
(2) 2018 - Fully depreciated assets that are still in use amount to approximately $8.4 million (2017- $ 8.1 million). Liens, see Note 18b.
(3) Including non-depreciable land in the amount of $ 4.2 million.
(4) Rights of use leased assets composition:

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

## NOTE 14:- GOODWILL AND OTHER INTANGIBLE ASSETS

a. Composition and movement:

| 2018: | Software | Customer relationships | Development costs - novel products | Controlling rights (1) | Goodwill | Total |
|---|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | | |
| Cost: | | | | | | |
| Balance at 1 January 2018 | 462 | 8,487 | 6,052 | 3,446 | 25,533 | 43,980 |
| Additions during the year | 29 | - | - | - | - | 29 |
| Balance at 31 December 2018 | 491 | 8,487 | 6,052 | 3,446 | 25,533 | 44,009 |
| Accumulated amortization and impairment: | | | | | | |
| Balance at 1 January 2018 | 98 | 8,487 | 5,908 | 1,232 | 19,758 | 35,483 |
| Amortization recognized during the period | 52 | - | 93 | 492 | - | 637 |
| Balance at 31 December 2018 | 150 | 8,487 | 6,001 | 1,724 | 19,758 | 36,120 |
| Net book value: | | | | | | |
| At 31 December 2018 | 341 | - | 51 | 1,722 | 5,775 | 7,889 |

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

(1) See Note 5.

(2) See Note 6.

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

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

c. Impairment testing of goodwill:

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

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

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

In order to obtain an additional indication of the fair value of the Group CGU, the Company received a valuation performed by an independent valuer. The valuation implemented the discounted cash flow ("DCF") method based on assumptions as to the future operations of the Group CGU. These assumptions are derived from the Company's past results, and management's projected growth in the Company and in the market, which reflect cash flows that market participants would consider when assessing fair value.

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

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

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

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

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

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

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

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

**NOTE 16:- TRADE PAYABLES**

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

**NOTE 17:- OTHER PAYABLES**

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

(1) See Note 20.

(2) See Note 21.

## NOTE 18:- LOAN FROM BANK

a. Composition:

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

b. Loan terms:

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

c. Maturity dates after the reporting date:

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

## NOTE 19:- EMPLOYEE BENEFIT LIABILITIES, NET

a. Post-employment benefits:

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

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

1. Defined contribution plans:

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

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

| | 31 December |
|---|---|

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

2. Defined benefit plans:

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

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

2018:

| | Balance at 1 January 2018 | 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 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | | | | | | | |
| Defined benefit obligation | (962) | (58) | (44) | 17 | 48 | 31 | (6) | 184 | - | - | (784) |
| Fair value of plan assets | 681 | - | 13 | (8) | (45) | - | (40) | (167) | - | 12 | 486 |
| Net defined benefit asset (liability) | (281) | (58) | (31) | 9 | 3 | 31 | (46) | 17 | - | 12 | (298) |

2017:

| | Balance at 1 January 2017 | 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 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | U.S. dollars in thousands | | | | | | | | | | |
| Defined benefit obligation | (801) | (58) | (45) | 14 | (74) | (11) | (174) | 17 | (4) | - | (962) |
| Fair value of plan assets | 591 | - | 18 | (11) | 69 | - | 76 | (17) | 15 | 16 | 681 |
| Net defined benefit asset (liability) | (210) | (58) | (27) | 3 | (5) | (11) | (98) | - | 11 | 16 | (281) |

b. Plan assets:

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

c. Plan Liabilities, net:

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

d. The key assumptions used in defined benefit plan:

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

(1) Market yields on high quality corporate bonds.

(2) Employee turnover rates in 2018 and in 2017 are 20%, 15%, 10%, 5%, in the following age range18-35, 36-45, 46-50, 51-retirment, respectively.

## NOTE 20:- PAYABLE FOR ACQUISITION OF SUBSIDIARY

Composition:

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

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

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

## NOTE 21:- LEASE LIABILITIES

a. Composition:

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

The Group leases various properties:

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

As more fully described in Note 2l, on adoption of IFRS 16 the Group recognized lease liabilities in relation to these leases which previously were classified as operating leases under IAS 17. See Note 13 for the related right of use assets.

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

| | Year ended December 31, 2018 |
|---|---|
| | U.S. dollars in thousands |
| Depreciation expense for right-of-use assets | 551 |
| Interest expense for lease liability | 118 |
| | 669 |
| Income from subleasing right-of-use assets | 79 |
| Total expenses for leases | 590 |

## NOTE 22:- COMMITMENTS AND CONTINGENCIES

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

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

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

3. For agreement with the Egyptian partner regarding purchase commitments, see Note 5.

## NOTE 23:- FINANCIAL INSTRUMENTS

a. Financial risk factors:

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

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

   1. Exchange rate risk:

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

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

   2. Credit risk:

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

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

insignificant.

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

3. Liquidity risk:

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

b. Summary of liquidity risk:

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

31 December 2018:

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

31 December 2017:

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

c. Fair value:

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

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

f. Changes in liabilities arising from financing activities:

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

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

## NOTE 24:- EQUITY

a. Composition of share capital as of:

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

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

c. Capital reserves:

Adjustments arising from the translation of foreign operations:

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

*Reserve from transaction with shareholders:*

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

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

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

| | | Year ended 31 December | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | U.S. dollars in thousands | |
| a. | Revenues from sales to major customers: | | |
| | Customer A - the U.S | 24,051 | 19,457 |
| | Customer B - the UK | 8,513 | 13,557 |
| | Customer C - the U.S | 9,596 | 7,277 |
| b. | Cost of sales: | | |
| | Materials consumed | 14,837 | 10,835 |
| | Payroll and related expenses | 5,639 | 4,719 |
| | Subcontractors and subcontracted work | 25,759 | 23,541 |
| | Depreciation and amortization | 1,187 | 871 |
| | Other manufacturing expenses | 3,472 | 3,484 |
| | | 50,894 | 43,450 |

| | | Year ended 31 December | |
|---|---|---|---|
| | | 2018 | 2017 |
| | | U.S. dollars in thousands | |
| c. | Selling and marketing expenses: | | |
| | Payroll and related expenses | 1,604 | 1,608 |
| | Transportation and storage | 2,304 | 1,997 |
| | Depreciation and amortization | 201 | 647 |
| | Advertising | 28 | 28 |
| | Bad debts and doubtful accounts | 5 | 15 |
| | Other | 621 | 731 |
| | | 4,763 | 5,026 |
| d. | General and administrative expenses: | | |
| | Payroll and related expenses | 1,507 | 2,132 |
| | Consulting | 84 | 59 |
| | Listed company expenses | 437 | 408 |
| | Depreciation and amortization | 141 | 149 |
| | Other | 439 | 551 |
| | | 2,608 | 3,299 |

| | Year ended 31 December | |
|---|---|---|
| | **2018** | **2017** |
| | **U.S. dollars in thousands** | |
| e. Development costs: | | |
| Payroll and related expenses | 686 | 735 |
| Material consumed | 6 | 9 |
| Other | 108 | 103 |
| | 800 | 847 |

f. Other expenses include mainly expenses in connection with the Company efficiency program.

| | 2018 | 2017 |
|---|---|---|
| g. Finance income | | |
| Exchange rate | 12 | 2 |
| Income from finance lease | 5 | 8 |
| Other | 3 | - |
| | 20 | 10 |
| h. Finance expenses: | | |
| Interest expenses from financial liabilities measured at amortized cost | 361 | 435 |
| Interest for lease liabilities | 119 | 107 |
| Finance expenses in respect of short term credit from factoring arrangements and others | 1,393 | 1,089 |
| Exchange rate | - | 456 |
| Other | 167 | 45 |
| | 2,040 | 2,132 |

## NOTE 26:- TAXES ON INCOME

a. Tax laws applicable to the Company in Israel:

*Income Tax (Inflationary Adjustments) Law, 1985:*

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

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

b. Tax laws applicable to foreign Group companies:

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

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

1. Companies in Israel:

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

2. Foreign subsidiaries:

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

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

Company incorporated in the UK- 2018 – 19.25%.

A company incorporated in Egypt:

The statutory tax rate in Egypt is 22.5%. The company operates in a free trade zone and is entitled to a full income tax exemption. Free zone companies pay 1% from their exports and 0.1% from their imports which included in the Company's cost of sales. The tax and other benefits available to the company in the free trade zone are for a period of 25 years commencing from 2003. Based on an amendment published in 2013, the period of the company's license to operate in the free trade zone is limited to the date on which the lease of its property in the free trade zone ends. The Company has extended the lease agreement until July 2022.
A company incorporated in Ethiopia- 2018- 30% (2017- 30%).

d. Final tax assessments:

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

e. Losses and deductions carried forward for tax purposes:

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

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

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

The tax benefit in respect of the remaining losses and temporary differences has not

been recorded in the financial statements due to the uncertainty of their utilization.

f. Deferred taxes:

Composition:

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

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

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

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

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

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

| | Year ended 31 December | |
|---|---|---|
| | **2018** | **2017** |
| | U.S. dollars in thousands | |
| Loss before taxes on income | (5,775) | (2,905) |
| Statutory tax rate in Israel | 23% | 24% |
| Tax benefit computed at the statutory tax rate | (1,328) | (697) |
| Increase (decrease) in taxes on income resulting from the following factors: | | |
| Differences between statutory tax rate in Israel and the tax rates on foreign companies | (162) | 40 |

| | | |
|---|---|---|
| Nondeductible expenses | 152 | 48 |
| Differences in measurement basis between tax purposes and financial reporting purposes | 27 | (326) |
| Taxes in respect of previous years | - | (341) |
| Utilization of previously unrecognized tax losses | (187) | - |
| Adjustment of deferred tax balances following a change in tax rate | - | 179 |
| Losses for which no tax benefit has been recorded | 1,249 | 1,111 |
| Other | 321 | 109 |
| Tax expense | 72 | 123 |

**NOTE 27:- SHARE-BASED PAYMENT**

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

| | Year ended 31 December | |
|---|---|---|
| | **2018** | **2017** |
| | **U.S. dollars in thousands** | |
| Equity-settled share-based payment plans | 84 | 177 |

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

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

- 25 per cent. After 1 year.
- 25 per cent. Once the Company's share price is 8 pence or above.
- 25 per cent. Once the Company's share price is 10 pence or above.
- 25 per cent. Once the Company's share price is 12 pence or above.

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

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

d. Movement during the year:

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

(1) The weighted average remaining contractual life for the share options outstanding as of 31 December 2018 is 7.65 years (2017- 8.65 years).

(3) The range of exercise prices for share options outstanding as of 31 December 2018 USD 0.01 for 294,250 options, USD 1.8 for 132,500 options, USD 0.048 for 29,662,075 options. and 0.04 for 700,000 options.

## NOTE 28:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances:

As of 31 December 2018:

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

As of 31 December 2017:

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

b. Benefits to key management personnel: (1)

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

(1) Includes members of the Board of Directors.

(2) Includes termination expenses totaling US $ 124 thousands.

## NOTE 29:- NET EARNINGS (LOSS) PER SHARE

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

| Year ended 31 December | | | |
|---|---|---|---|
| 2018 | | 2017 | |
| Weighted number of shares *) | Net loss | Weighted number of shares *) | Net loss |
| In thousands | U.S. dollars in thousands | In thousands | U.S. dollars in thousands |
| 310,543 | (5,847) | 310,543 | (3,028) |

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

## NOTE 30:- ADDITIONAL INFORMATION ON OPERATIONS

a. General:

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

b. Revenues by geographical area:

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

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

| | 31 December | |
|---|---|---|
| | 2018 | 2017 |
| | U.S. dollars in thousands | |
| Israel | 1,071 | 1,855 |
| UK | 1,028 | 1,032 |
| U.S. | 6,651 | 6,210 |
| Ethiopia | 7,091 | 6,899 |
| Other | 1,557 | 1,222 |
| | 17,398 | 17,218 |

**NOTE 31:- LIST OF INVESTEES**

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Shares conferring voting rights | Shares conferring rights to profits | Shares conferring voting rights | 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 Holdings (UK) Limited) | 100 | 100 | 100 | 100 |
| Bagir International, Inc., U.S. (a subsidiary of Bagir Holdings (UK) Limited. | 100 | 100 | 100 | 100 |
| Middle East Tailoring Company SAE, Egypt (owned by Bagir (BVI) and Bagir Holdings (UK) Limited) *) | 100 | 50 | 100 | 50 |
| Nazareth Garments Share Company, Ethiopia (see Note 6) | 100 | 100 | 100 | 100 |
| ***In liquidation*** | | | | |
| Bagir GmbH, Germany (a subsidiary of Bagir Holdings (UK) Limited) | 100 | 100 | 100 | 100 |
| DRNBHV, Schuler Herrenkleiderfbrik GmbH (a subsidiary of Bagir GmbH) | 100 | 100 | 100 | 100 |

*) See Note 5.

**NOTE 32:- SUBSEQUENT EVENTS**

In February 2019, the Company announced that further to the investment of $16.5 million by the Investor (see Note 1d), the Investor intends to provide manufacturing equipment for

the exclusive and indefinite use of the Group in the Ethiopian manufacturing facility. The manufacturing equipment will be provided to the Company for no consideration. The market value of the manufacturing equipment to be provided is estimated at approximately $1.3 million. The manufacturing equipment is expected to be delivered to the subsidiary in Ethiopia during 2019.
In addition, the Investor, an existing supplier of the Company, has granted an extension of 90 days to their usual credit payment terms on the acquisition of up to 500,000 meters of wool and wool blend fabrics at market value. This extension to the investor's credit terms will last until 30 June 2019.

After the completion of the investment in the Company by the Investor that is expected to be received no later than May 2019, the Company intends to invest approximately $1.5 million in the manufacturing site in Ethiopia.

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

- - - - - - - - - - - - - -