8 March 2017

Bagir Group Ltd.

("Bagir" or the "Company")

Final Results

and

Board changes

Bagir (AIM: BAGR), a designer, creator and provider of innovative tailoring, is pleased to announce its final results for the year ended 31 December 2016.

2016 was a significant year for Bagir during which it delivered a turnaround trading performance, reversing losses from the prior year, clearing all bank debt, reducing total cost base by c.30% and investing in the Company's future growth.

2016 highlights

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

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

* *'EBITDA' is a non-IFRS measure that the Company uses to measure its performance. It is defined as Operating Income (loss) before Depreciation and Amortisation (2016: $1.7m 2015:$2.9m) and non-cash share based compensation (2016: $0.2m). In 2015 the EBITDA was adjusted also for impairment of intangible assets of $1.4m*

** *Adjusted for impairment of intangible assets of $1.4m*

*** *Including $13.3m financial income from debt write-off, attributed to the clearance of the bank loans*

Commenting on the results, CEO Eran Itzhak, said:

"It is extremely pleasing to report on the turnaround we have achieved to date and the early signs we are seeing regarding the future potential of the Group. For 2016, our target was to reverse the losses recorded in the previous year, strengthen our balance sheet, reduce costs and re-focus manufacturing on three tax and labour efficient sites. We have done this successfully and I believe we are now a stronger business than we were three years ago having been through such a rigorous process.

The proof now will be in our ability to win new high volume retail clients and the early signs are good having secured new contracts with H&M and Haggar Clothing Co., new recruited customers in both the US and the EU and we are holding promising discussions with several further significant potential clients. We are conscious of where we have come from and therefore we intend to remain very focused on developing a long-term, profitable business with a balanced portfolio of clients."

The annual report and financial statements for the year ended 31 December 2016 will shortly be made available from the Company's website in accordance with AIM Rule 20.

Enquiries:

Bagir Group Limited	+44 (0) 20 7284 7133
Eran Itzhak, Chief Executive Officer	
Udi Cohen, Chief Financial Officer	
N+1 Singer (Nominated Adviser & Broker)	+44 (0)20 7496 3000
Alex Price	
Novella Communications (Financial PR)	+44 (0)20 3151 7008
Tim Robertson	
Toby Andrews	

Strategic and financial review

Introduction

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

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

Operational review

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

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

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

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

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

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

Banking

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

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

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

Financial results

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

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

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

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

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

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

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

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

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

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

Board

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

Post-period end, Esther Maoz was appointed as an External Director under Israeli Companies Law. Esther is currently Senior Vice-President and Chief Marketing and Innovation Officer (CMO) of Delta Galil Industries LTD., the global manufacturer and marketer of private label apparel products. Previously she was President of Delta Textiles, a new US division for Delta Galil Industries LTD, and played a significant role in increasing their sales. Esther's career in textiles began in 1975 after studying Business Administration and Marketing from Haifa University, Israel.

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

Outlook

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

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

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

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

*) Reclassified.

	Note	31 December 2016	31 December 2015
		U.S. dollars in thousands	
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities of long-term loans		-	465
Trade payables	7	3,848	5,416
Other payables		4,618	5,831
		8,466	11,712
NON-CURRENT LIABILITIES:			
Loans from banks		-	20,772
Employee benefit liabilities, net		210	439
Payable for acquisition of subsidiary		2,594	2,972
		2,804	24,183
EQUITY:			
Share capital		3,284	576
Share premium		86,306	78,342
Capital reserve for share-based payment transactions		1,580	1,438
Capital reserve for transactions with shareholders		10,165	10,165
Adjustments arising from translation of foreign operations		(8,895)	(8,895)
Accumulated deficit		(73,204)	(83,152)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		19,236	(1,526)
Non-controlling interests		1,946	1,946
Total equity		21,182	420
		32,452	36,315

	Note	Year ended 31 December 2016	2015
		U.S. dollars in thousands	
Revenues from sales		64,071	75,207
Cost of sales		53,541	67,870
Gross profit		10,530	7,337
Selling and marketing expenses		6,172	9,464
General and administrative expenses		3,050	4,315
Development costs		1,652	2,221
Other expenses, net		2	25
Operating loss		(346)	(8,688)
Finance income		13,305	17
Finance expenses		(2,676)	(2,975)
Company's share of losses of a joint venture		(414)	(49)
Income (loss) before taxes on income		9,869	(11,695)
Tax benefit		32	44
Net income (loss) for the year (all attributable to equity holders of the Company)		9,901	(11,651)
Other comprehensive income:			
Items not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gain on defined benefit plans		47	73
Total other comprehensive income		47	73
Total comprehensive income (loss)		9,948	(11,578)
Net income (loss) attributable to equity holders of the Company		9,901	(11,651)
Total comprehensive income (loss) attributable to equity holders of the Company		9,948	(11,578)
Earnings per share attributable to equity holders of the Company (in dollars)	10		
Basic and diluted Earnings profit (loss) per share		0.11	(0.23)
Weighted average number of ordinary shares for basic and diluted earnings (loss) per share (in thousands)		90,231	50,377

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

*) Less than $1 thousands.

	Year ended 31 December	
	2016	**2015**
	U.S. dollars in thousands	
Cash flows from operating activities:		
Profit (loss)	9,901	(11,651)
Adjustments to reconcile profit (loss) to net cash provided by (used in) operating activities:		
Company's share of losses of a joint venture	414	49
Depreciation and amortization	1,738	4,347
Deferred taxes, net	(36)	(48)
Change in employee benefit liabilities	(182)	56
Cost of share-based payment	177	10
Loss from sale of property, plant and equipment	20	173
Finance expenses, net	1,430	1,384
Income tax benefit, net	4	4
Gain on extinguishment of debt	(13,305)	-
	(9,740)	5,975
Changes in asset and liability items:		
Decrease in trade receivables	171	6,104
Decrease (increase) in other receivables	(319)	829
Decrease in inventories	2,989	2,053
Decrease in trade payables	(1,568)	(1,935)
Decrease in other payables	(516)	(300)
	757	6,751
Cash paid during the year for:		
Interest paid	(978)	(1,100)
Taxes paid	-	(4)
	(978)	(1,104)
Net cash used in operating activities	(60)	(29)
Cash flows from investing activities:		
Investment in joint venture	-	(228)
Purchase of property, plant and equipment	(375)	(112)
Addition to intangible assets	(43)	(617)
Purchase of short-term investments, net	(5)	(67)
Release of pledged bank deposits	387	-
Net cash used in investing activities	(36)	(1,024)
Cash flows from financing activities:		
Issue of shares, net of expenses	9,750	-
Exercise of options	3	6

Receipt of loans from banks	-	21,237
Repayment of long-term liabilities from banks	(6,988)	(14,025)
Decrease in short-term credit, net	-	(9,880)
Short-term advance from (repayment to) joint venture	(708)	708
Payment of liability for acquisition of subsidiary	(800)	(950)
Net cash provided by (used in) financing activities	1,257	(2,904)
Increase (decrease) in cash and cash equivalents	1,161	(3,957)
Cash and cash equivalents at the beginning of the year	7,463	11,420
Balance of cash and cash equivalents at the end of the year	8,624	7,463
Non-cash transactions:		
Issuance of shares upon extinguishment of loans from Banks into shares	884	-
Liability for acquisition of subsidiary	-	3,446
Investment in a joint venture	-	50

NOTE 1:- GENERAL

a. Company description:

Bagir Group Ltd. ("the Company") is registered in Israel. The Company and its subsidiaries ("the Group") specialize in the manufacturing and marketing of men's and women's tailored fashion. The Company's Headquarters are located in Kiryat Gat, Israel. The Group's products are manufactured by a subsidiary and subcontractors. The Group's products are marketed in Europe (mainly in the U.K.), the U.S. and in other countries. As for operating segments, see Note 30.

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

c. In November 2016 the Company completed a restructuring of its debt and equity such that all of its debt to Banks was extinguished in consideration for the issuance of shares and partial repayment, which repayment was funded by an issuance of shares in a private placement – see Notes 16 and 22 for details.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

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

a. Basis of presentation of the financial statements:

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

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

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

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. 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 2016	1.229	0.26
31 December 2015	1.482	0.256
Change	**%**	**%**
Year ended 31 December 2016	(17.0)	1.5
Year ended 31 December 2015	(4.9)	(0.3)

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:

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:

1. Financial assets:

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

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

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

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

b) Loans and receivables:

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

2. Financial liabilities:

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

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

Financial liabilities at amortized cost:

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

3. Derecognition of financial instruments:

a) Financial assets:

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

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

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.

l. Derivative financial instruments:

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

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

m. Fair value measurement:

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

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

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

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

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

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

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

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

n. Leases:

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

Operating leases - the Group as lessee:

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

o. Property, plant and equipment:

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

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

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

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

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

p. Intangible assets:

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

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

Development expenditures:

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

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

Software:

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

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

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

q. Impairment of non-financial assets:

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

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

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

1. Goodwill:

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

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

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

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

2. Investment in a joint venture:

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

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

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

r. Taxes on income:

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

1. Current taxes:

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

2. Deferred taxes:

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

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

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

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

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

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

s. Share-based payment transactions:

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

Equity-settled transactions:

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

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

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

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

t. Employee benefits liabilities:

The Group has several employee benefit plans:

1. Short-term employee benefits:

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.

u. Revenue recognition:

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

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

Revenues from the sale of goods:

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

Interest income:

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

v. Provisions:

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

w. Earnings (loss) per share:

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

NOTE 3:- INVESTMENT IN A SUBSIDIARY

The Company, through a wholly owned subsidiary, holds an investment in a company in Egypt that was jointly owned and controlled with another Egyptian company ("the Egyptian partner"). On 1 January 2009, the Company signed an agreement with the Egyptian partner whereby the control and management will pass to the Company for a period of six and half years starting 1 January 2009 in consideration of the payment of 4% of the sales revenues of the Egyptian company to the Egyptian partner but not more than $ 900 thousand a year and not less than $ 800 thousand a year for 2009 and 2010, and a fixed amount of $ 1 million for each of the years 2011 to 2015. Over the term of the agreement, the control and management of the Egyptian company will be in the hands of the Company and it shall bear all costs and entitled to all profits relating to the Egyptian company. As a result of this agreement, since 1 January 2009, the Company fully consolidates the financial statements of the Egyptian company.

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

NOTE 4:- CASH AND CASH EQUIVALENTS

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

NOTE5:- TRADE RECEIVABLES

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

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

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

	Neither past due (nor impaired)	Past due but not impaired				
		< 30 days	30 - 60 days	60 - 90 days	Over 90 days	Total
	U.S. dollars in thousands					
31 December 2016	3,024	713	228	-	7	3,972
31 December 2015	3,546	73	434	58	32	4,143

NOTE 6:- INVENTORIES

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

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

NOTE 7:- TRADE PAYABLES

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

NOTE 8:- SHARE-BASED PAYMENT

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

	Year ended 31 December	
	2016	2015
	U.S. dollars in thousands	
Equity-settled share-based payment plans	177	10

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

h. Movement during the year:

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

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

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

NOTE 9:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balances:

As of 31 December 2016:

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

As of 31 December 2015:

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

b. Benefits to key management personnel :*)

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

*) Include members of the Board of Directors.

NOTE 10:- NET EARNINGS (LOSS) PER SHARE

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

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

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

NOTE 11:- OPERATING SEGMENTS

a. General:

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

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

b. Reporting on operating segments:

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

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

c. Additional information:

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

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

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

NOTE 12:- SUBSEQUENT EVENTS

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